Public Accounts Committee

Oral evidence: Contract management across the Ministry of Justice and the Home Office

Monday 8th September 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Mr David Burrowes; Chris Heaton-Harris; Meg Hillier; Mr Stewart Jackson; Austin Mitchell; John Pugh; Nick Smith

Sir Amyas Morse, Comptroller and Auditor General, Joshua Reddaway, Director, Gabrielle Cohen, Assistant Auditor General, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Rupert Soames, Group Chief Executive, Serco, James Thorburn, Managing Director for Home Affairs, Serco, Peter Neden, Regional President UK and Ireland, G4S, and Jean Pierre Taillon, Managing Director, UK Government Services, G4S, gave evidence.

Q1 Chair: Thank you very much for coming this afternoon. I think we have seen both companies before, but I thought it would be good to have an update. We will start with you, Mr Soames, from Serco. Can you give us an idea of the quantum of business you now do with the public sector—not just central Government, but across health, local government and other public sector organisations? What proportion of your UK turnover is now public sector business? Do you have the figures?

Rupert Soames: Yes. We have about £1.6 billion a year of public sector business in the UK and about 35,000 people operating that business. The UK represents about 60% of our business worldwide.

Q2 Chair: What proportion of your UK business is the public sector?

Rupert Soames: The vast majority.

Q3 Chair: Over 90%?

Rupert Soames: No, probably over 80%.

Q4 Chair: Right. Since the tagging contract and the over-billing, has your business gone up or down with the public sector?

Rupert Soames: Since July 2013, the run rate is down.

Q5 Chair: By?

Rupert Soames: I have not got the percentage off the top of my head, but certainly all the electronic monitoring contracts have gone away and we had other contracts that have naturally expired. We have not won any meaningful new work since that time.

Q6 Chair: And for you, Mr Neden?

Peter Neden: Our business globally has a turnover of around £7 billion. The business in the UK and Ireland is around £1.6 billion, the vast majority of which is—

Q7 Chair: Does "Ireland" include both bits of Ireland—Northern Ireland as well?

Peter Neden: Yes, indeed. The business that we have with Government is around £730 million, of which £440 million is with central Government.

Q8 Chair: And local government and health is?

Peter Neden: Around £190 million in total.

Q9 Chair: So, out of the £747 million—

Peter Neden: It is £730 million with Government. There is £440 million with central Government and £190 million with local government.

Q10 Nick Smith: Where is the rest, then?

Peter Neden: In our commercial business, providing security and cash services, and services to utilities.

Q11 Chair: Right. The UK is what proportion of total business?

Peter Neden: The UK is £1.6 billion and the group is £7 billion. So Government is around 10% of the group.

Q12 Chair: Right. In that are you including local government also?

Peter Neden: I am including local government.

Q13 Nick Smith: Ten percent is from the UK. Do you have other Government contracts in other parts of the world?

Peter Neden: The UK Government represents around 10% of the global turnover of the group.

Q14 Chair: Has your business with the UK Government, in the wide way you have defined it, gone up or down since July 2013 when the over-bidding on tagging happened?

Peter Neden: It has declined. I do not have the exact number, but I would think it is around about £20 million per year.

Q15 Chair: Twenty million pounds—so hardly, then? It is on the margins.

Peter Neden: I would not consider £20 million to be on the margins.

Q16 Chair: Well, of £700 million—

Peter Neden: Against £700 million, yes.

Rupert Soames: May I correct one figure? The £1.6 billion that I gave you is for our central Government business in the UK. There is a further £700 million with local and regional government, so our total revenues relating to Government in the UK are £2.3 billion.

Q17 Chair: And that, you reckon, is what percentage of your total turnover in the UK?

Rupert Soames: That is the bit that is over 80% of our business.

Q18 Chair: Thank you for that. Now can I ask you, what has changed in the way that you run your businesses since we have had this corporate renewal? Who would like to start on that—shall we go to you first, Mr Neden?

Peter Neden: Certainly. First, we did some investigations to understand what had gone wrong, and then we worked with our client to determine the extent of our overcharging. We wanted to put right, in a very practical way, the errors of the past.

Q19 Chair: What had gone wrong?

Peter Neden: What had gone wrong is that we had made judgments on a complex contract that were inappropriate.

Q20 Chair: What does that mean? That is gobbledegook to me.

Peter Neden: The contract was open to interpretation. We made judgments on the way in which to interpret that and those judgments were inappropriate. We made the wrong judgments and that led to us over-billing.

Q21 Chair: It's still a bit gobbledegook to me. What do you mean? Either you tagged somebody and you got paid for it or you didn't tag them and you shouldn't have got paid for it.

Peter Neden: Indeed. The contract was worded in such a way that that was open to interpretation and we have made some mistakes there. Also, our oversight—

Q22 Nick Smith: You just got it wrong, didn't you?

Peter Neden: I said that we made the wrong judgment and we got it wrong, for which we are sorry. We have sought to identify the amount of our overcharging and pay that money back.

Looking to the future, we have made changes to the leadership of the organisation. We have created a central Government business, led by someone new into role, Jean Pierre Taillon, who is responsible for all of our central Government business. We have also looked to strengthen the oversight that we put on ourselves to make sure that we are providing the services to the right standard, providing accurate and timely information to our client, billing correctly and providing accurate information around KPIs. We have also sought to strengthen the review that we do with and the review that we put ourselves under from our client, so that these things cannot happen again. It might be helpful if Jean Pierre describes the changes we have made to our oversight with our client.

Jean Pierre Taillon: That is not a problem—thank you for the opportunity. Actually, what we have done is, we do the executive oversight boards now with the Home Office—

Q23 Chair: You are going to have to speak up.

Jean Pierre Taillon: I am sorry. We do the executive oversight boards now, with the Home Office, once a quarter. This has been a great opportunity for us to share measurements, key performance indicators, as well as the relationship between the two parties. We have also started to roll that out to the MOJ and the YJB. We have our first oversight board meeting on 25 September. That will give us an opportunity to review our contracts with them in a clear and transparent manner in which we can have a partnership conversation to validate and ensure that we are properly invoicing, we are properly meeting the criteria for the contract; and it gives us an opportunity to have a firm discussion at senior level as to how well the contract is actually working: are we delivering to the expectations?

Q24 Chair: What you have described to me is a set of relationships between you and the Government Departments, and that Mr Taillon is new in the job; but beyond that, presumably it was to your commercial advantage to cheat. What has now made you change the way in which you do your business? How have you changed? Are you more transparent? Could the NAO look at your accounts?

Peter Neden: We are very comfortable with giving access to the NAO to look at all of our information.

Q25 Chair: So what has changed in the way you do—I will tell you what I think about this. It is not just individuals who did things wrong. There is a culture in an organisation which encourages and enables that to happen. That is what happens when these things go wrong; and it did not just go wrong in one contract. There are other examples of where it has gone wrong. I understand you changed the boss; and I understand that you have better conversations with the Department. We will come to the Department, as to whether they have changed; but what I want to hear from you is what else you have done to give greater assurance to the taxpayer that you are not cheating.

Peter Neden: Well, it is not just a change in the central Government services leadership. It is also a change of chairman, a change of group chief executive, and a change of leader for the UK and Ireland business. We are also working with the CBI to agree new arrangements on transparency, both in terms of freedom of information to provide that transparency to the taxpayer, and also to provide further transparency to Government Departments. And we are very happy to—

Q26 Chair: So is the change transparency? What is the change? A lot of people have changed. We will come to the Departments, but I think it does not take a lot of reading in the Departments to see that the capability in the Departments will have a long way to go. You might want to comment on that. So what I am trying to understand from you is—I do not think in the long term it is in your commercial interest to cheat; I think if you are dependent on Government business, over time that will out—so I want to know what is transformed: the information you give; the transparency? I do not know what it is. I have got to get some understanding of it.

Peter Neden: I think we are providing more granular detailed information to our client—

Q27 Chair: To the Department?

Peter Neden: To the Department. As I say, we are very happy to provide that information to the NAO. I think in their Report in November they confirmed that we had indeed been entirely open with our information. It is also, I think, about the seniority of the people that undertake the reviews of the work that we do internally; so, typically, we now have more senior people putting ourselves under scrutiny, so we will often be presenting to our group executive committee, and we also have greater use of third parties in reviewing the work that we do. And we would completely agree with you that it is not in our long-term interests to do anything other than the right thing.

Q28 Chair: So what contracts are the Serious Fraud Office currently looking at, that you have with the Government?

Peter Neden: The Manchester magistrates court and electronic monitoring contract.

Q29 Chair: The Manchester magistrates court—oh yes; and there, there is a problem. I have picked that up. Have you sorted that out?

Peter Neden: We have sorted that out and have been working with the client to make sure that cannot happen again, as well.

Q30 Chair: Just one other thing. So you have got the Serious Fraud Office, who might take for ever to look at that. Can I just ask one other thing: there was a ban on your tendering for contracts from July 2013, wasn't there?

Peter Neden: I am sorry; my understanding is that we have not been operating under a ban.

Q31 Chair: What? No ban?

Joshua Reddaway: There has not been a ban on either Serco or G4S being awarded new contracts or contract extensions.

Chair: I thought the public understanding was that there was a ban. Did you think there was?

Q32 Austin Mitchell: Contracts must have been negotiated in the period when you were in purdah for having cheated. Contracts must still have been negotiated for the new business that you took on as soon as you had been humble, got on your knees and paid up.

Peter Neden: Sorry, I didn't catch the question.

Austin Mitchell: You must have been in the process of negotiating new contracts for new services in the period when you were in purdah after being naughty. Those contracts must have been negotiated in that period because they went so quickly after you paid up. They must have been concluded pretty well before.

Peter Neden: We were continuing to submit bids. That is correct.

Chair: You had been submitting bids. Chris Grayling made a statement to the House. What did he actually say?

Nick Smith: It was more ambiguous than that, and now it's all starting to come out. It wasn't really a ban.

Q33 Chair: What did it say? Can you find it?

Joshua Reddaway: The situation, as we understand it, is that a control was put in place across Government that all contracts that were to be extended or awarded to either Serco or G4S had to go through the Cabinet Office and the Minister for the Cabinet Office. There was no formal ban.

Peter Neden: That is what we said.

Joshua Reddaway: Can I just clarify that I think that two separate facilities management contracts were referred?

Q34 Chair: Where there was overcharging?

Joshua Reddaway: Yes, and they were referred to the SFO.

Q35 Chair: How much was the overcharging on those contracts?

Peter Neden: I think it was around £105 million on electronic monitoring and around £4.4 million on the other two contracts.

Q36 Mr Bacon: Of overcharging?

Peter Neden: Of overcharging. Sorry, no. The £105 million includes all of the costs that were associated with the investigations.

Q37 Chair: I am quite shocked. I do not doubt that you are telling me the truth. I am finding it rather difficult to find the statement that Mr Grayling made to the House, but he did leave me with the impression that there was going to be a pause until such time as there was—I am quite shocked by that. I shall ask this question to the Ministries, but it seems to me that you have been found to have fraudulently claimed and that you are under SFO inquiry on two contracts. It is pretty extraordinary that they carried on negotiating with you on other areas, isn't it? Doesn't that strike you as being a bit odd?

Peter Neden: These are long-term bidding processes, and we continued to bid on some contracts.

Q38 Chair: It doesn't matter how long term they are. You have been found to be fraudulently claiming, you have an SFO inquiry and somebody is carrying on doing business with you when this is all hanging over you. It strikes me as being utterly extraordinary.

Sir Amyas Morse: As we look at these instances, what reward do people get for what in your group? People must be rewarded for maximising income, or something of that sort. They cannot all be doing this because they are suicidal; they must be doing it because they think it is desirable and rewarded behaviour. Whether or not that is true, what are you doing now about the reward structure? You have a large number of subsidiaries, which means it is difficult to control in detail from the centre. I take it that you would agree with that. And if you give people sales growth figures and incentives to drive them forward, which is perfectly understandable in the commercial context, you cannot be terribly surprised if that leads to a somewhat indiscriminate approach. What are you doing about the whole business of how much money they get and what they are rewarded to do? Have you had a look at that? If so, how has it changed? I am trying to get the answer to the question that you were asking, Chairman.

Peter Neden: That is a very good question. If I could just describe my own arrangements, I am rewarded through a basic salary and then there are two elements of bonus. There is a short-term bonus scheme that relates to the current year and there is a basket, called a balance scorecard of measures, around customer satisfaction, employee engagement and satisfaction and some financial measures of which revenues, growth and profit are included. We are in a long-term scheme that rewards us for the long-term growth of the company. It is really on that one that I would agree with you; it is not in our interests to do anything other than the right thing because we will be found out. It is not the way we want to business.

Sir Amyas Morse: Sorry, can I bring you back round? It is interesting to hear about your arrangements, but I really want to hear about the arrangements of people running subsidiary companies who are actually running these contracts in detail. Those are the ones where the problems are arising. There is a question about what is happening in the centre, but I want to know what is it like if I am somebody who is trying to work these contracts. What does it feel like? What is the true geography of the group like if you are actually working inside it, not if you are on top of it?

Peter Neden: Forgive me. My arrangements are replicated by everybody in our company scheme in the UK. Everybody in our schemes in the UK will be rewarded on a balance scorecard of customer, employee and financial.

Sir Amyas Morse: Is that a new arrangement?

Peter Neden: The balance has shifted to be more towards employee and customer satisfaction.

Q39 Mr Bacon: And less on revenue growth and profit growth?

Peter Neden: And less on financial.

Q40 Mr Bacon: Previously the balance was chiefly on profit growth or revenue growth?

Peter Neden: I would say there was more an emphasis—

Q41 Mr Bacon: How was it split up? You mentioned four things and obviously it wasn't 25:25:25:25 before. What weight was given to the growth of revenue and what weight was given to the growth of profit in the environment we were talking about from before that led to your employees committing systematic fraud?

Peter Neden: It would have been three quarters on financial.

Q42 Mr Bacon: So 75% of the total would have been financial. Of that 75%, how much would have been revenue growth and how much would have been profit growth?

Peter Neden: That would vary for different people.

Q43 Mr Bacon: But you did mention both of those two. Sensible businesses are usually more interested in profit growth than in revenue growth because if it costs you more to create the revenue then you are not really getting very far. In the case you mentioned of the fraud of £105 million, how much of the business in that area—mainly electronic tagging of offenders—sat on profit growth and how much of the incentive sat on revenue growth?

Peter Neden: I really couldn't comment on that. I do not know the details of those schemes. I was just giving you an example of the scheme that I am in and the fact that that has changed to be a more balanced scorecard.

Q44 Mr Bacon: But the point is that somebody deciding whether to submit an invoice for an electronic tagging that did not take place, or for a prisoner whose sentence has been completed and is no longer in jail, or whatever it is, must have had in front of them incentives that encouraged that kind of behaviour. You would agree with that, in terms of the financial consequences?

Peter Neden: I would agree that managers in the business would have had an incentive scheme that encouraged revenue and profit growth, yes.

Q45 Mr Bacon: I am just trying to understand how big those incentives were.

Peter Neden: That would vary for different people.

Q46 Mr Bacon: And you can't tell me?

Peter Neden: No, I can't tell you.

Q47 Mr Bacon: Can you write to us with that information?

Peter Neden: We could certainly write to follow up on that.

Q48 Nick Smith: I want to plough that same furrow. Mr Neden, it's great that you have got new leadership and that you and Mr Soames are trying to introduce a new culture in your companies. It is a shame that you use phrases like "We made judgments that were inappropriate" rather than "We cheated the public purse." You have paid back £140 million, which is good, including costs to the public purse, but presumably the people that did that cheating, the people you have turfed out, got some sort of bonus themselves? Have you, as companies, managed to get some of those moneys back for yourselves from the people that you have since given the elbow too?

Peter Neden: I am not aware of anybody receiving a bonus.

Q49 Nick Smith: No one got any bonuses for the £140 million?

Peter Neden: Anybody that left the organisation would have left with their strict contractual entitlement.

Q50 Nick Smith: They did not get any bonuses previously for these tagging contacts?

Peter Neden: I do not know the detail of that for individuals.

Nick Smith: Mr Soames?

Rupert Soames: The tagging contracts were running for eight or nine years and it would not have been possible to have unravelled out of those claiming, going back 8 or 9 years. I just do not think that would have been have been a possibility.

Q51 Nick Smith: Do you think you would have paid bonuses to senior managers for those contracts and, if you did, have you tried to get the money back?

Rupert Soames: As a new boy coming into it and reading the transcripts, my honest judgment is that—at the level at which this was being done, which was way down in the organisation—the bonus element was not a driver.

Q52 Chair: But you would accept, Mr Soames, that a cultural issue in the company allows that to happen. It is dead easy to blame the little guys down at the front but it is a cultural issue. They did it for some reason, not just for the fun of it—they felt they would get further or that they would get paid more. There was something in it for them in your culture—both of you.

Rupert Soames: That is not true on an endemic basis. We have had a huge cultural survey done by independent organisations that says there is nothing corrupt or unethical about our culture. This has been an absolute earthquake and a disaster for Serco. We pride ourselves on public service, which is a huge part of our business. What happened was totally unacceptable and unethical; frankly, we are deeply ashamed of it.

Q53 Chair: Okay, I am glad to hear that but if it is not cultural, how do you explain Cornwall, which we looked at in the Committee?

Rupert Soames: The fact remains that all the other contracts that were looked at—I know there has been Cornwall GP out-of-hours, which is a different issue in scale from electronic monitoring.

Q54 Chair: People cheated about what they were doing.

Rupert Soames: I am not defending it but it is of a different scale. In the audit that has been done by the NAO Report, no evidence was found of deliberate wrongdoing on any of the 19 central Government contracts that Serco looked at. I was not there but my belief is that there are two issues. One issue is KPIs and how you manage them—how KPIs are reported and marking your own homework—which is where there is probably an endemic issue across the whole of Government contracting. Completely unacceptable behaviour of tagging people and mischarging for events are different things. When all the other contracts were awarded, it was shown that this was not an endemic issue within our company. However, we have taken it completely seriously. We have a corporate renewal programme: 95 actions agreed with the Government, 87 of which has been completed; chief executive gone; new finance director coming; and 35% of the management of the central Government business have left the business.

I want you to be in no doubt that the effect has been catastrophic and our reaction to it has been to totally co-operate, to be transparent with the Government and to enter into an corporate renewal programme that has gone throughout our company; it is bigger than anything I have seen in my corporate life in terms of its extent. We have paid back the moneys that we owed and have done a very serious corporate renewal programme. I struggle to think how we could have—having been caught doing wrong and being found to have done wrong, we have worked incredibly hard to right the wrong.

Q55 Chair: I am glad to hear that. I know that David wants to come in but I just want to know: how many of your contracts are the SFO looking at?

Rupert Soames: One.

Chair: Only one? I thought it was five.

Rupert Soames: No—the electronic monitoring—one.

Q56 Chair: And public sector contracts, which incorporates local government, health and others?

Rupert Soames: To our knowledge, the SFO is looking at one contract and the City of London police have a separate inquiry on the PECS—the court escorting service—contract.

Q57 Chair: So overcharging for pathology in a contract with Guy's and St Thomas'.

Rupert Soames: We totally refute the reports that came out in the press. They are untrue in all material substance. I spoke to Sir Ron Kerr to confirm that. You will see that the trust put out a very supportive statement of us saying that there are no outstanding disputes between Serco, a 30% shareholder in Viapath, and the NHS. The professor of blood services, who had mentioned in a report that he thought the blood services were inadequate a year ago, has now issued a statement saying that all his concerns have now been—

Q58 Chair: Has the audit shown that there was no overcharging and double counting? Has there been an audit that has shown that?

Rupert Soames: There has been an audit and a reconciliation has been done. Perhaps I can explain briefly what happened. The old NHS systems were spitting out invoices that were known to be incorrect or duplicate. They were held in abeyance and every quarter we would get together with the trust and go through them manually and strike them out. No money was paid in excess of what was agreed between the parties under that contract. The thing at Guy's and St Thomas' came as a complete bolt out of the blue. As I said, I have spoke to Sir Ron Kerr and the NHS has put out a very supportive statement.

Q59 Chair: Have you been overpaid on that contract?

Rupert Soames: No.

Chair: Has there been double counting?

Rupert Soames: No.

Q60 Chair: I want to ask one more question and then I will go to David and back to Nick.

If we find examples over the coming year of where there have been overpayments, would you then say that your corporate renewal had not worked?

Rupert Soames: No. Perhaps I may gently say that in an organisation of 125,000 people, the one thing I guarantee is that someone somewhere is doing something very stupid or making a mistake 24/7. We cannot run a completely error-free organisation. What I noted from the NAO Report was that there was no evidence in all the other contracts that it looked at of deliberate wrongdoing. To the extent that there had been some overcharging on one contract, there was undercharging on others, and I believe that the net figure of the overcharging that was headlined was £300,000 across £617 million of contracts. This is not an endemic problem.

Q61 Mr Burrowes: Has this corporate renewal made any difference to what became all too abundantly clear was an endemic problem under electronic monitoring, which was the transfer pricing arrangements between main providers and small subsidiaries? Do you have anything that could be categorised as a federation of contracts? That is for G4S and Serco. Would you suggest you have a similar system, or has corporate renewal exposed and changed that?

Rupert Soames: We have a much tighter system now of contract audit and supervision. It is probably not perfect and it is probably not without holes, but we have set about this with a will. I think we have a good understanding now, having done forensic trawling of e-mails and evidence-gathering, as to what did happen with electronic monitoring and, as you know, it is subject to an SFO inquiry. We have used that knowledge to inform our own corporate renewal programme and the way we manage other contracts, but I do not live in an error-free zone.

Q62 Mr Burrowes: Plainly you have been saying you do not want error or wrongdoing, but the issue is whether there is still the same federation of contracts where transfer pricing arrangements could happen in other contracts. The concern is whether that systemic issue has been changed and challenged by corporate renewal.

Rupert Soames: Yes. It was a specific issue of which we are well aware.

Peter Neden: We have very few internal transfer pricing arrangements, and those that we do are subject to very rigorous oversight and controls. We do, however, have around 17% of our business with Government going to small to medium-sized enterprises, the voluntary sector and charities; and increasingly we are looking to put the same oversight on those subcontractor arrangements as we put on to ourselves.

Q63 Nick Smith: Mr Neden, to pick up where I left off with the questions, you have paid £140 million back to the public purse. Your company's reputation has been trashed in recent times. Can you tell me how much bonus you paid to your regional president before he left, and have you tried to get any of it back?

Peter Neden: The regional president before me?

Nick Smith: Yes.

Peter Neden: I am not able to talk about other individuals and their exit arrangements; I'm sorry.

Q64 Nick Smith: Have you tried to get any money back from him, given what has happened to your company since he left?

Peter Neden: I am just not able to talk about the circumstances of other individuals.

Q65 Meg Hillier: One of the things that has come up repeatedly in this Committee with businesses such as yours, which earn a lot of money from taxpayers, is about transparency. Others—in fact, some of you; others from your company—have said to us that they would be happy to open their books more widely to Government. Can you just tell me yes or no whether you agree with that general premise? I think you've sort of said it already, Mr Neden, about the NAO[1].

Peter Neden: I think we are very happy to open our books more widely, and we see the National Audit Office as the most sensible vehicle by which to do that.

Meg Hillier: Mr Soames?

Rupert Soames: I would rather give a more detailed answer than yes or no, but since you push me, yes. But I think there are some really important—

Q66 Meg Hillier: Which I want to come on to in supplementary questions, and I want to touch on some other issues that you raise as well, Mr Soames, if I may. We have heard that, in that approach, there are some barriers to doing that, and quite often from the Government side. Perhaps I'll start with you, Mr Soames. If you had a free hand over being open about how that taxpayers' money was being spent, what sort of information would you put in the public domain so that people like me and my constituents could find out how money is being spent in their name?

Rupert Soames: Other than those that impact on national security, I would want to publish, on our website, quarterly KPIs against all our contracts, provided other people were prepared to do the same. I think that there are a number of issues swirling around here. One of the advantages that we have is that we have businesses overseas, so we see how it works in, for instance, the United States. Open-book accounting is a fantastic idea—people can look at it all day long—but be aware:

[1] Meg Hillier subsequently requested that the transcript be amended to allow her to declare an interest that her husband is a non-executive member of a company which intends to bid for a Ministry of Justice contract.

you have to have proper accounting standards to make it worth while. In the US, we have 10 federal Government auditors sitting in our head office going through all the open-book accounting. Be careful what you wish for. You can't just say, "Show us." Part of the problem with EM is that the open-book accounting was done on a spreadsheet and you can't do that if you want to do it properly. You have to have consistent treatment. You then have freedom of information. Again, we are happy to do it, but be careful what you wish for, because it's going to be a huge barrier to SMEs coming into the business—administering that. We handle, I think, about two a month that come through. There are two things that I think should happen.

Q67 Meg Hillier: Two a month come in through Departments?

Rupert Soames: Yes, we handle about two. There are two things that I think should happen. One is the publication in public of KPIs. Go into every hospital in the land and they will show you stats about how they are doing. Why not on our contracts? That will drive much better measurements of KPIs, and I said earlier to you that I think that where there does reside an endemic issue is the difficulty and appropriateness of KPIs and measurements.

The second thing is that I think that there should be a new dispensation, a new way of thinking about how companies do business with the Government, which is that companies owe a duty of care to the taxpayer. I regard every pound that comes into Serco as partly my pound, because I'm a substantial taxpayer; it's my money that is coming in to pay for this and I bloody well want to see that it's properly looked after. We have duties of care to our colleagues in terms of health and safety and to our shareholders, and I don't see why we should not regard ourselves as having a duty of care to the taxpayer, which means to say that you don't make excessive profits and that you give good service. I frankly think that that is a more constructive approach than the "transparency and fairness" agenda, for the very simple reason that I think transparency and fairness only works if it's two-way.

Q68 Mr Bacon: Only works?

Rupert Soames: If it is both ways. I certainly have my doubts as to whether the Government will be able to keep their side of the transparency and fairness agenda.

Q69 Meg Hillier: We can put that to them.

Rupert Soames: They are paid to look after the national interest, and the national interest may sometimes mean not being transparent and fair.

Q70 Chair: They use our money. We are as hard on them as we are on you.

Rupert Soames: The point being that transparency and fairness are great words. You need to get some definition behind them. Saying that we have a duty of care to taxpayers is something that I can go and sell inside my organisation. I can use that as a way to explain to people why they should not go and indulge in inappropriate acts, on the basis that they are all taxpayers.

Q71 Meg Hillier: Mr Neden, perhaps you could respond briefly. Tell us if there is anything you disagree with that Mr Soames has said. That might be quicker.

Peter Neden: I do not think we would disagree with any of that. We also regularly provide information under FOI to Government Departments. We are very supportive of the agenda, but agree that there need to be definitions. On the point of public service, I would invite any member of the Committee to come and visit any of our facilities and talk to the staff providing those services, and test for yourselves whether they consider themselves to be in public service.

Chair: We will come on to that when we have dealt with that.

Q72 Meg Hillier: Mr Soames had a good long answer but that does not mean that I do not still have some questions to ask. One is about the point you made, Mr Soames, and please answer it briefly, given our time constraints. You raised the endemic issue of how KPIs are measured. In your view, as businesses that have had problems and you have now had to work with Government for this corporate renewal, do you think it is getting any better? Do you think that Government have the capability actually to know what you are doing?

Peter Neden: I would say that the direction of travel is wholly positive. We certainly feel intense competition being brought to bear upon us and we feel that our client is vigorous and robust with us. We think that is absolutely right.

Q73 Meg Hillier: You say competition, but there are not many businesses like yours that could do these contracts, the ones you've had problems with and some you have not. Were you not too big to fail in the first place? Isn't that what the corporate renewal is about?

Peter Neden: That is certainly not how it appears to us. The Government spend £190 billion on public services; £40 billion of that is outsourced—about a quarter—and of that £700 million is with us. That to me does not look like we are too big to fail, and it certainly does not feel like we are too big to fail in our dealings with our client Departments. I did read it in the Report; I simply did not come to the same conclusion.

Q74 Chair: I have to say back to you on that that it is extraordinary, given where we were with you. I am pleased to see that you think you are reformed, but given that you have cheated and have SFO inquiries, if you were not too big to fail, I think you should be dropped until the SFO drops its inquiries. It is as simple as that, and I think any rational person would take that view. It is nothing personal. In a situation where you have actually been seen to have cheated and you have an SFO inquiry, what on earth are Government doing negotiating with you, if you are not too big to fail?

Meg Hillier: Mr Soames has a right to comment on that.

Rupert Soames: If I may say, going back to the fact—and I may be wrong—we certainly regarded ourselves as unawardable for any new work after the Justice Secretary's statement, through to the end of January. It was plain to us that we would not be awarded any business. I do not think you should doubt that this was something that did not happen. I understand, and I may be wrong, that part of the problem with an outright ban would have been around EU law. We would not have challenged anyway. The fact is that we felt we were not awardable.

Q75 Chair: But you were negotiating, Mr Soames, with DWP for a contract for community work placements, during what I thought was a ban.

Rupert Soames: There were a number of things—for instance, Thameside prison—where there had been an extension agreed to it in January.

Q76 Chair: But this is a new contract: community work placements.

Rupert Soames: No, it is not new; it is an extension. It was an extension to an existing contract.

Q77 Chair: Community work placements for long-term unemployed was a new policy. Was that an extension on an existing DWP contract? I think it is a new contract.

Rupert Soames: I do not know; I do not know the detail. As far as we were concerned, we were unawardable and we did not win any new business during that period.

Chair: But you negotiated.

Q78 Meg Hillier: Madam Chair, I want one final point on the bigger picture. We have a lot of detail about what went wrong, but I think you, Mr Neden, talked about working with the new executive oversight boards, meeting them once a quarter. You used the word "partnership", and in construction partnering has been a long-standing approach where the private sector and its public sector client have worked together on long-term value for money—I do not need to teach you how to suck eggs; that was for the benefit of anyone watching. Would that be better than the approach in which the client, who is weaker than you, is trying to commission and monitor contracts when it is not always good at that? Would you welcome an approach in which you were in partnership with the Department that had commissioned you and, if that was the case, how would you do things differently?

Rupert Soames: Generally speaking, first of all, I have come into this and seen the level of commitment at the senior levels of the MOJ and the Home Office and they seem to be extremely engaged. A lot of this is to do with the level at which people engage and that is one thing that came out of the NAO Report.

I think the direction of travel, as my colleague said, is correct and it is getting better. In terms of partnership, we are very happy to engage in any sort of relationship that our client wants from us.

Sir Amyas Morse: I am sorry, Chair. Before we go too far, Mr Soames, if you do not mind, I think you should consider whether there is any other information about contracts that you want to give the Committee and follow up in writing, if I may just suggest that, please.

Rupert Soames: About extensions that we were—

Sir Amyas Morse: Or awards that you have had. Please, rather than trying to deal with that verbally, I think you should give it some further consideration. I am sorry.

Rupert Soames: Can I also make a point, Madam Chairman? We may well have done horribly wrong, but to say that a company should be banned on the presumption of guilt because of a referral to the Serious Fraud Office and that it, broadly speaking, should have its livelihood taken away from it before we even know whether anyone will do anything is quite broad—

Q79 Chair: Actually, I am a bit worried about this conversation. I gather that the Comptroller and Auditor General is telling me that there have been negotiations for other contracts—

Sir Amyas Morse: I just think, Mr Soames, that you need to be quite sure that what you have said is full and complete.

Chair: Tell us where it isn't.

Sir Amyas Morse: I suggest that after the hearing you go and have a look at your testimony and, if you need to correct it, you do so in writing at the earliest opportunity.

Rupert Soames: In other words, I've made a mistake. I apologise—

Sir Amyas Morse: I think you might have done, but I could be wrong. I just think that you should have a jolly good look at it—

Chair: I just want to come back on something. No one is saying never, but you were both found to have overcharged. It is not as if someone came in and said that there may have been overcharging; you were found to have overcharged. These matters get referred to the SFO and the Metropolitan police and, in those circumstances, if you are not too big to fail it is just a bit of common sense to say, "Hang on, we won't give these guys new contracts until such time as they have either been given the all-clear or action has been taken." That is just plain common sense and it does concern me. That is not your problem—obviously, if they offer you business, you would be mad not to respond to that—but, from the Government's point of view of protecting the interest of the taxpayer, if you were not too big to fail, that is what they should have done.

Q80 Austin Mitchell: I want to ask a general question of both of you, because here we have a new species of capitalism. We might call it leech capitalism, because it leeches off the state—Mr Soames might like to call it socialist capitalism or public service capitalism—but it demands new regulation and new auditing procedures because the odds in the negotiations and contracts favour big organisations like you rather than the Departments that you are dealing with.

You have got clever lawyers and accountants and your motivation is profit—you are not the Boy Scout movement or an altruistic society—and the Departments have not got the skilled commercial people to deal with that kind of detailed contract stuff, so you can pull the wool over their eyes if you want. But certainly, if there are lurks, tricks or procedures available that will increase your profit, which they cannot stop or do not know about, you will use them because profit is the motivation.

In that kind of situation, the negotiations are unequal and private audit does not work. Grant Thornton has been all over you, but it was looking for what is true and fair for your shareholders, not for the public sector or for public services. The only thing that will ensure value for money and a proper, fair deal for the taxpayer is total openness. You must open your books, as you promised when we met last December or whenever it was, not only to the Department as a customer but to public service invigilation—the National Audit Office and us. Will you open your books and not hide behind commercial considerations so we can see that we are getting value for money out of the contracts?

Rupert Soames: We are more than happy to do that. Our books are open, to the extent that how much money we make out of central Government work is plain to view and audit.

Q81 Austin Mitchell: To the National Audit Office?

Rupert Soames: If the National Audit Office wishes to see it, it can. Our audited published accounts show for the first half of this year a profit rate of 3.6% for our central Government division, which includes all our central Government work. We have some contracts that generate losses—the COMPASS contract has so far cost us £15 million—and others that make more money on the other side. Open-book accounting and transparency must not become a game of hunt the high margin without taking account of the contracts that we lose money on, bearing in mind that part of what the Government have done extremely effectively is to transfer risk from the public world to the private world.

Q82 Austin Mitchell: It is making a profit out of public services, as well as transferring risk, and we need to know how much that profit is and how it is being made.

Rupert Soames: It is 3.5%, which is too low for the risks we take.

Q83 Chair: I wish the risks were transferred with everything.

James Thorburn: We are seeing more audit of what we do coming out of Government. PECS, the prisoner transport contract, has been under administrative supervision with independent third-party auditors, and the improvement plan is being audited. You referred to Grant Thornton. You don't need to take our word for it about our corporate renewal; the Government are instructing auditors, as is recommended in the NAO Report. As part of a recent negotiation on one of our contracts, a third-party independent—one of the big accountancy firms—came in, and we fully opened up our books to them and showed them everything so they could advise and support the Government. We do not feel the Government are at any sort of disadvantage when they use those contractors and we open up our books. That is exactly what we are doing, and that is what corporate renewal is all about.

Q84 Austin Mitchell: How about G4S?

Peter Neden: A final point on that. It remains the case that it is entirely at the Government's discretion whether they choose to award us work or not. In nearly every case, before we can be awarded work we have to satisfy the Government that we can provide the service better for less. I was pleased that Tim Breedon's report acknowledged that outsourcing has delivered better for less in that Department. That partly answers the question about whether we should be awarded more work. That is all at the behest of our clients.

Chair: I will go to Chris, then I want to come back to better for less.

Chris Heaton-Harris: First, you will be unsurprised, Madam Chairman, that I disagree with most of what Austin was saying. To repoliticise the subject—

Chair: We are not going to politicise the subject.

Q85 Chris Heaton-Harris: Then I will throw in some balance.

There is general disappointment about how your companies handled the contracts we have been talking about; I felt particularly let down. I do not see so much of Serco in my constituency, but G4S does really good work and delivers better for less. In prisons and children's services I have seen really good examples of your work. Reputation is everything in your business, and you let yourselves down, as well as the taxpayer, so I am pleased to hear about the corporate change and renewal that is going on. While I'm pleased you have been so honest with the Committee, on our side of the fence we challenge the civil service and Permanent Secretaries. I read in the Report and have heard a little from you about how we, as a Government, can give you a better challenge. If you were a poacher turned gamekeeper—if you were a taxpayer—how could the Government improve their policing of the projects? For example, setting sensible KPIs that people could understand if they were published online. How can we help you to ensure that the problems of the past cannot be repeated in future?

Peter Neden: First, the real responsibility lies with us. We take full responsibility for the things that have gone wrong and we need to put them right for ourselves. We see increasing professionalisation of the procurement functions, as well as an increased emphasis on ongoing contract management and on understanding us as an organisation. We think all of that is very positive; the direction of travel is good. We would encourage Government to not stop doing what has worked, because that has been in the interests of the taxpayer, and to carry on with the agenda. Whether they choose us or another organisation, it is down to our clients to run the competitions, to let the market do its work and to then make appropriate choices.

Q86 Mr Bacon: Can I ask a question on the idea of more for less and better for less? Government have outsourced things for years and there are lots of obvious reasons—for example, the capital cost of modern hardware and software that is better and helps you be more productive can be spread over more clients if it is outsourced. However, locking people up or tagging them is part of the state's traditional and legitimate monopoly of force. How do you and Mr Soames at Serco perform these sorts of function and extract better for less in a way that Government cannot do in-house?

Peter Neden: We are incentivised by profit and, to achieve profit, we look to take cost out of our operations and run them more effectively and efficiently. Where we have taken over other facilities, we have looked to remove wastage and unnecessary effort. We have also looked to put in technology. For instance, we have put a technology solution into our prisons to allow prisoners to self serve, which has removed administration costs. We are just incentivised to keep looking for ways to do things more efficiently.

Rupert Soames: It is very interesting; I have been talking to people who came to Serco from the public service and I said to them, "What's different? How do you feel about it?" The fact is, I think that we are more agile. We move quicker and take decisions faster. We invest faster. We are therefore able to run, not always perfectly, but on the whole—I have just come back from Australia where our cost per like prisoner in an institution is a third of the public sector cost. Like G4S, we have done self service.

Q87 Mr Bacon: Is that a third of the Australian public sector cost?

Rupert Soames: Yes, per prisoner per head. I think it is undeniable that the private sector can deliver services more freely and easily than the public sector can, and that goes back to the old agreement, “Who would want to go back to BT?” Do we think that BT now does better than the old Post Office?

Q88 Chair: We don’t think BT does a very good job, for a private company.

Rupert Soames: I will write a letter afterwards to clarify.

Q89 Mr Burrowes: The question was framed between the state or G4S and Serco. The problem is probably not wholly your making, but you have been complicit with the Government in it; it is just between you two and the Government. With electronic monitoring, for example, you are charging £4,000 a tag when the market out there would say, “Technology has moved on and it should be a few hundred pounds.” Is it not because of your size and the way you have done it that the Government have gone for what seems to be the easy option but is not necessarily the best value out there. With them, you have monopolised the market. Telecommunications is a good example; it has gone beyond BT now, but has not with this type of justice contract model.

James Thorburn: Our role is to provide a competitive market with the public sector as well. So rather than just a monopolistic public sector, putting it out to private sector, because we work differently and we are used to competition, is something that we do. We will strive, therefore, and have systems and processes created to try and innovate and also to try and—we talked about technology as well—find ways of providing better service for less, more for less. That is our role. For as long as we can provide those services and that competitive market with the public sector, we drive better value overall for the taxpayer.

Q90 Chair: I wanted to come in on your better for less, because it was an issue that I wanted to discuss. Let me go to G4S first. We looked at Oakwood and we looked at the new prisons. Your cost per prisoner is £13,200, as compared to the previous cost of £22,000.

Jean Pierre Taillon: Oakwood is £11,000.

Chair: Say again.

Jean Pierre Taillon: Oakwood is £11,000 per prisoner per year.

Chair: Right.

Jean Pierre Taillon: So we are actually half of that.

Chair: Well, my figures are—

Jean Pierre Taillon: I apologise for that; that is the right answer.

Q91 Chair: Okay. Undoubtedly, some comes from efficiencies, but also some comes from a worse service, because if you look at the damning report on Oakwood from the Inspector of Prisons, it is clear that it is about who you bring in as your staff and how many you have. I will just read something: "The prison had many advantages in terms of the quality of its design and facilities"—it is a brand-new prison—"but there was a palpable level of frustration among prisoners at their inability to get even basic issues addressed. The inexperience of the staff was everywhere evident, and systems to support routine services were creaky, if they existed at all. The quality of the environment and accommodation mitigated some of the frustrations and without this risks could have been much greater. Against all four of our healthy prison tests, safety, respect, activity and resettlement, the outcomes we observed were either insufficient or poor."

It continues: "Staff-prisoner relationships were not respectful and very worrying. Prisoners had little confidence in the staff… Many staff were passive and compliant, almost to the point of collusion, in an attempt to avoid confrontation, and there was clear evidence of staff failing to tackle delinquency or abusive behaviour… Well over a third of prisoners were locked up during the working day and only just over half were in activity at any one time."

So yes, there is efficiency, but it is at the expense of quality.

Jean Pierre Taillon: But there is continuously inspection by HMIP on-site and, in fact, we are going through a whole inspection programme as we speak, with Oakwood.

Q92 Chair: Are you spending more money?

Jean Pierre Taillon: We are spending a lot of money, actually, yes.

Chair: More money?

Jean Pierre Taillon: We are spending more money, yes.

Q93 Chair: Right. So some of the efficiencies—if you are spending more money, that is interesting. I will come to Serco in a minute, and the contracts that we have looked at in respect of them. In a sense, you bid in for a contract, you come in at a low figure, you get the contract and you then find that you can't deliver the service level, because the inspector comes along and criticises you, and you then have to increase, just simply to get through the standard from the inspector.

Chris Heaton-Harris: I think it is fair to say that the inspectors also criticise nationalised prisons.

Chair: Well, that is a brand-new prison, Chris.

Chris Heaton-Harris: I know, but you are trying to make a comparison that is not exactly fair.

Jean Pierre Taillon: A brand-new prison takes at least a year to mobilise and get correct. You have to hire, train, TUPE staff—we took over a lot of staff. There is churn, there are changes in procedures, there are processes. This is very complex and it is being monitored by the Government continuously, and by NOMS, to ensure that we are providing proper health and safety.

Q94 Chair: It is not good enough for a brand-new prison.

Jean Pierre Taillon: It is good.

Chair: It isn't good enough.

Q95 Mr Bacon: You are saying you would expect a 12 to 18-month-old prison to be performing better than a brand-new prison?

Jean Pierre Taillon: Correct, because you have time to train people and get accustomed to the facilities and the layout. Unfortunately, it is just a normal transition period and that is what it takes.

Q96 Chair: Well. I would be interested to check whether that is the case against all new prisons. I don't accept that.

Jean Pierre Taillon: But on the positive side, as it is moving forward and we have gotten a good rating just recently—we are rated as a three—and we are working for another inspection on 1 December. So the progress in the direction of travel is there, but again, you have to realise these are large mobilisation projects that have to happen and they don't happen overnight.

Q97 Chair: But you will make less profit because you will increase your staffing and capability?

Peter Neden: If we have to, we will.

Jean Pierre Taillon: Yes.

Peter Neden: I think that is a report and we have taken action on that. There are other prison facilities that we run where there are very different inspection reports.

Q98 Chair: I am bound to have picked up those.

The other thing is detention centres. You both run detention centres, don't you?

Peter Neden: We do, yes.

Jean Pierre Taillon: Correct.

Q99 Chair: Is it true that you are using immigration detainees, paying them £1 an hour, both of you?

Peter Neden: We have an obligation to provide meaningful work. I do not know what the pay rates are; the pay rates are those that are agreed with the Home Office, I understand.

Q100 Chair: A pound an hour?

Peter Neden: I don't know what the pay rates are, but I understand that they are agreed with the Home Office.

James Thorburn: So I think there are a couple of things to be very clear on here. The Chief Inspector of Prisons, Nick Hardwick, wrote an open letter after that report pointing out that, actually, purposeful activity is of a real benefit to detainees and prisoners—that was the finding. We do not save any money by not having staff we would otherwise have because the detainees and prisoners work in the prison. It is done on an entirely voluntary basis.

Q101 Mr Bacon: So it is not a "Shawshank Redemption" job?

James Thorburn: Absolutely not.

Q102 Chair: What do you mean you don't save money? You must save money—if they are doing the cooking, you are not employing cooks.

James Thorburn: No, we don't. It is supplemental over what we have anyway. We do not save money because people are working in our prisons or detention centres.

Jean Pierre Taillon: And it is not enough people to make a difference. It is about trying to keep people busy.

Q103 Chair: Serco runs Doncaster prison, which is not new, is it, Chris?

Chris Heaton-Harris: I have never visited it.

Chair: I don't think it is a new prison.

James Thorburn: No, it is definitely not a new prison. It has been running for some time.

Q104 Chair: Okay. The inspectors there found that "levels of violence… were four times higher than in comparable prisons. Many of the prisoners at risk of self-harm were on a basic regime or held in segregation. There have been three suicides at the prison since April 2011.

"Staff were overwhelmed and lacked control, and one wing had been damaged by fire and vandalism during a riot. A significant number of prisoners spent more than 22 hours a day locked in their cells."

James Thorburn: Madam Chair, I think that what you are not reading out is the Chief Inspector of Prisons' report into Hassockfield saying that it is one of the best operating prisons in the country. You are not referring to Ashfield, which is currently topping all the prisons, both public and private sector.

Q105 Chair: I'm talking about Doncaster.

James Thorburn: You are also not referring to Kilmarnock and Yarl's Wood and the excellent Chief Inspector reports we have had there.

Q106 Chair: What about Doncaster?

James Thorburn: Yes, we received a poor report at Doncaster. We responded to that immediately. We have an improvement plan in there. We will bring in extra resources as well, to help to drive that, and we will turn it around.

Rupert Soames: I think that we have had the contract at Doncaster for how many years?

James Thorburn: Quite a long time.

Rupert Soames: More than 10 years, and we have had consistently good performance there.

Q107 Chair: This is not a good performance.

Rupert Soames: We have had consistently good performance until this last report, which has come as a major wake-up call to us. I understand from my contact with colleagues that NOMS is very satisfied with the action we have taken. It is a bad report, the Doncaster one—

Q108 Mr Bacon: What caused that sudden tail-off after a lot of consistently good performance?

James Thorburn: What happened in Doncaster was that we were running a number of pilots for reoffending and the rehabilitation of offenders in the prison. During that time, we took our eye off the ball on some basics, so we need to redress that. You will notice in that report that our purposeful activity and rehabilitation work was very heavily commended and scored four out of four. Some of the other areas suffered, but we are going to readdress that.

Q109 Mr Bacon: So too many pilots at one time caused you to lose your focus?

James Thorburn: No, there was one significant pilot that was running around rehabilitating offenders across the entire prison, and I think we took our eye off the ball on some of the basics.

Q110 Chair: Okay. Will you write to us about the contracts?

Rupert Soames: I will.

Chair: Thank you all for your evidence.

Examination of Witnesses

Witnesses: **Dame Ursula Brennan,** Permanent Secretary, Ministry of Justice, **Ann Beasley,** Director General of Finance, Ministry of Justice, **Mark Sedwill,** Permanent Secretary, Home Office, and **Mike Parsons,** Chief Operating Officer, Home Office, gave evidence.

Q111 Chair: I am going to start with a question to Mr Sedwill and Dame Ursula. Has either of you, in your civil service career, been personally in charge of managing and executing a contract—implementing a contract?

Dame Ursula Brennan: I was responsible, when I was in the DWP, for some IT contracts, yes.

Q112 Chair: Which ones?

Dame Ursula Brennan: Oh, gosh, it's going back a long way. I cannot even remember the name of it. It was to do with data in the DWP, or the DSS as it would have been at the time. It was not a successful contract. It did not go well. I subsequently had strategic responsibility for contract issues in the DWP.

Q113 Chair: No, I understand strategic, but I am just asking about running a contract.

Dame Ursula Brennan: I was not the contract manager; I had a manager who managed the contract. We did not have the term SRO in those days, but if we had done, I was the person in IT who would have been the SRO at that time.

Chair: Probably in the days when we were making lots of money out of you and PwC on IT and DSS, but anyway—go on.

Dame Ursula Brennan: No, it was even before that.

Mark Sedwill: I suppose the closest in my case, Madam Chairman, is when I was running UK Visas, which was one of the predecessor organisations of the Border Agency, when we started the outsourcing overseas of the visa application process. I was the director of the institutions; I was not actually running the programme itself. Because it was quite small and this was a central part of the business model, I was directly involved with those suppliers and in placing and running the contract.

Q114 Chair: But neither of you has actually run a contract. I understand that in your team, there were people running contracts, but in terms of running contracts—

Mark Sedwill: I have never done a job that would say "contract manager."

Q115 Chair: Do you think perm secs should have done that? We are in a new world, and we are having many more contracts. Do you think perm secs should now have that as part of their necessary qualifications?

Dame Ursula Brennan: From my experience, effectively, I was responsible for this contract that all went wrong, and it was a formative experience in terms of the negotiations with the supplier and understanding why it was that we thought it was going well when it was not going well. Subsequent to that, I had lots of experience of being a director and then a DG with people responsible for contracts for me. I think actually being close to contracts, whether as an SRO or as a contract manager, is certainly a very useful piece of experience to have had.

Mark Sedwill: Yes, I agree with that. It is important to have had experience of it, but this area, like others, we are increasingly professionalising and therefore we will use more specialists. We will use more people with commercial qualifications and so on. But, as Ursula says, to have had direct experience as an SRO for a big programme or for a significant outsourced part of business would clearly be a very useful set of experiences for anyone becoming a perm sec.

Q116 Chair: Okay. I think what is for me slightly depressing—and from a brief discussion with Richard, I believe he feels likewise—is that it took the tagging contract to jolt people into action. I just don't get why both of you, in your separate Departments, needed fraud to suddenly focus on an essential, hugely important issue. It has been for years and years; this isn't partisan. We are now in the position where 50% of spending on goods and services is through contracts, and that is likely to increase whatever Government are in office. It is hugely important, yet a whistleblower comes, we hear about fraud and suddenly it becomes an issue. Why 2013?

Dame Ursula, I know that you were jumping around and you had only just come into the Department. There was a report in 2008 on tagging. Nobody took any notice of it. We did a report here on the interpreters. That might have made you think, "Crumbs, is the rest of our stuff going all right?", but nothing happened. Why did it take so long?

Dame Ursula Brennan: It is absolutely clear that the electronic monitoring problems were a wake-up call—I do not deny that at all—but I think it was not that nobody was thinking about contract management; I think that what electronic monitoring showed us was that all the things we were doing about contract management and commercial activity were missing one area. If you take electronic monitoring and the tagging contracts, we had people who were working as operational contract managers on electronic monitoring who were seeking to reduce the costs of that contract during the life of it, and indeed were reducing the costs. The unit costs of electronic tagging decreased over the lifetime of the contract because operational contract managers were concentrating on doing that work.

Meanwhile, we were building up our commercial directorate and focusing where we thought the biggest risks were, which was on letting new contracts. What electronic tagging told us was that focusing on trying to reduce costs while the contract is running, thinking about what we could do when we re-negotiated it and building that specialist skill was not enough. There was a gap, and that gap was commercial expertise in the live management of the contract. I do not think it was, "Gosh, there's all this contract management going on and no one's paying attention to it"; we were concentrating on a whole set of things and we missed what turned out to be an important area.

Q117 Chair: But the bidding issues there were first discovered in 2008, according to the report. That was five years before we had the whistleblower. I do not know when the whistleblower emerged, but it was about five years before that.

Dame Ursula Brennan: In practice, the problems in relation to the tagging contract and what we discovered there were discovered by the people who were making the preparations for the next set of contracts. The whistleblower came along after we had already started investigating.

Q118Chair: So what were the issues that were uncovered? The Report says that billing issues became clear in 2008. I'm right, Josh, aren't I?

Joshua Reddaway: Paragraph 1.6 says the Ministry discovered billing issues in 2008.

Chair: Okay. I do not know what that means. You might explain it as something different, but I read it and thought, "Well, why on earth didn't they do something in 2008, and not wait for a whistleblower and for megabucks from the taxpayer to be lost by Government?"

Q119 Mr Burrowes: It wasn't our report; it was a cross-Government good practice guide saying this needed to be taken seriously then.

Dame Ursula Brennan: There were indeed issues around billing. One of the things it is quite difficult to talk about at the moment is that we have investigated that, and it is now with the SFO, so some of the investigation on that has had to be put on hold pending what the SFO does. It is difficult, because there was evidence that we were able to collect from what we had on paper, but they asked us not to proceed with our investigation or further interviewing pending the investigation.

Q120Chair: Okay. I understand you probably can't talk about that, but you must be able to talk to us about why action was not taken in 2008 or with the previous reports. Why did you wait another five years?

Dame Ursula Brennan: As I say, I think the difficulty was, people's action was focused on—in relation to billing and other issues—looking at the cost we were paying for the contract and we were looking at, how much is this costing us, how can we reduce the costs, and how can we make sure that we are getting better value for money out of this by reducing the cost. It was there that people's attention was devoted, not into—

Q121 Mr Burrowes: Can you be a bit more specific? Whose attention was on this at the time?

Dame Ursula Brennan: The people who were the contract managers of that contract.

Q122 Mr Burrowes: In terms of the level of the civil service, who are we talking about?

Dame Ursula Brennan: There was a team within—this contract goes back a long way—

Q123 Mr Burrowes: I am trying to say, what level? Probably the underlying question is, what was the level of attention of senior civil servants?

Dame Ursula Brennan: In relation to the electronic monitoring contract, there will have been a senior civil servant who had that contract and others—a series of contracts.

Q124 Mr Burrowes: Was not one of the problems that the approval was given at a junior level, as the contracts were going along, maybe making savings here and there, but the overall risk was not under the purview or responsibility properly of the senior civil servant?

Dame Ursula Brennan: I come back to the point that I was trying to make, which was that the senior civil servant, and the contract team generally, were focused on actions to reduce the cost of the contract and they were not focused on, is there a problem here which might be leading to fraud. They were looking at—

Q125 Mr Burrowes: No, but the problem was—and this goes back to the question—that the good practice guide was not just about individual contracts, but about taking contract management seriously, and the problem is that there was only really a wake-up call in taking contract management seriously once we saw the huge bill and the problems arising from electronic monitoring. At the time, contract management was not being taken seriously at a high level.

Dame Ursula Brennan: I think I was saying that it was being taken seriously, but the effort was being put in in our commercial directorate and it is true we were not putting—with the limited commercial resource we had available to us, we were putting that in the commercial directorate, where it was more focused on the negotiation of new contracts, because that is where we thought the highest risk was. We thought with the existing contracts the highest risk was around how can we make sure that we reduce the costs of these contracts. So the energy and effort of people was at a lower level on those live contracts, and that is certainly the lesson that electronic monitoring taught us.

Q126 Mr Burrowes: But I am saying that you cannot really answer the big question about what the contract was, at the time. It is not easy for that question to be answered because of the lack of overall attention and because a lot of different pieces of the jigsaw were being dealt with by different people. There was not overall supervision that allowed those answers to be given.

Dame Ursula Brennan: There was a team responsible for the contract at the time. It is certainly the case that, over time, that contract changed. When electronic monitoring and tagging was new—when it was first introduced—that was in the era when it was still back in the Home Office and, over time, because it was successful and reduced cost for Government, we expanded it more and more. So it is true that the contract expanded—yes, that is absolutely correct—but it was not that lots of different people were responsible for it.

Q127 Mr Burrowes: But you have now come to the conclusion that the senior civil service needs to be involved operationally—it is not just a commercial function.

Dame Ursula Brennan: Yes.

Q128 Mr Burrowes: You have accepted now that, if that had been the case at the time, things would have been dealt with differently.

Dame Ursula Brennan: Absolutely. The electronic monitoring experience showed us that the effort that we were putting in was over-focused on worrying about the cost of the contract and we did not have enough commercial expertise on the operational side.

Q129 Chair: Has anybody been held to account for that?

Dame Ursula Brennan: Because this goes back a very long time, a number of the people no longer work for us and, as I said, this is an issue which is under live investigation by the SFO.

Q130 Chair: And the court facilities management. Has anybody been held to account for that?

Dame Ursula Brennan: The Total Facilities Management contracts?

Chair: The other G4S which are now with the SFO.

Dame Ursula Brennan: Yes, in relation to those contracts, those are indeed being investigated by the SFO, but we have not taken action against staff in relation to that, because we have not seen any evidence that what staff did—

Q131 Chair: But you referred it to the SFO. Who referred it?

Dame Ursula Brennan: Yes, we referred it to the SFO.

Q132 Chair: Well, you must have information.

Dame Ursula Brennan: Yes, sorry, but not information that our own staff were culpable—is what I was saying.

Q133 Nick Smith: I want to come in on this £140 million that G4S has had to pay back. I am trying to unpick it a little. Will you tell us how much has been paid back per year, in terms of over-charging, after this corporate chicanery? Just go back for the last five years on the £140 million.

Dame Ursula Brennan: Perhaps my colleague, Ann Beasley, can answer that.

Ann Beasley: G4S paid back a total of £179.4 million.

Q134 Nick Smith: Sorry; I thought we were told £140 million earlier on.

Ann Beasley: No. That £179.4 million was for the three contracts that we referred to the Serious Fraud Office: electronic monitoring and the two total facilities management contracts.

Chair: Ann, you are going to have to speak up.

Ann Beasley: Sorry.

Q135 Nick Smith: So the £179 million is two contracts.

Ann Beasley: Three contracts. We have reached a settlement that does not actually split out what is being paid back for each individual year; it is broken down by the type of repayments. It is a confidential settlement, but we have reserved the right to share it with appropriate bodies, so if you wanted more detail on that, we would have to write to you.

Q136 Nick Smith: It is just that Dame Ursula talked about the contract being long and having grown since it was first established. I am trying to work out where the connivance took place historically—was it in 2012, 2011, 2010? Can you give us some sort of picture?

Ann Beasley: There was over-billing throughout the entire length of the contract, which began in 2005, I think. In each year there was some over-billing.

Q137 Nick Smith: So it is £180 million since 2005, which is 10 years, so that is roughly £20 million a year.

Dame Ursula Brennan: It didn't fall like that, because the nature of the over-billing was partly to do with the way in which the type of people who were being tagged changed over time.

Q138 Nick Smith: I understand that it's complicated and that there were some new contracts along the way, but I am trying to understand a little more about it. At the moment, it seems like a big chunk of money—nearly 180 million quid. I am trying to understand when and for which contract this malpractice occurred.

Ann Beasley: There was over-billing throughout the life of the contract.

Q139 Nick Smith: Was any particular contract a problem? Was there a particular difficulty in a particular year? Or was it just that £20 million a year was leaking out of the system on this contract?

Ann Beasley: As Ursula said, it wasn't as smooth as that, but from the beginning of the contract there was over-billing in each of the years. Some changes were made to the contract in about 2009 that were designed to save money—they related to tagging people who were on bail—and that changed the nature of the over-billing. Nevertheless, there was over-billing in each of the years.

Q140 Nick Smith: Did the over-billing reduce after 2009 or did it go up?

Ann Beasley: It increased.

Q141 Nick Smith: So we had a new system that was intended to bring costs down, but over-billing actually went up.

Ann Beasley: Yes.

Dame Ursula Brennan: And costs did come down. That is the irony: the cost of the contract came down, but underneath that, over-billing went up.

Nick Smith: The cost came down but over-billing went up.

Dame Ursula Brennan: We reached a settlement with the two companies by analysing the types of areas where over-billing occurred over that period. We reached a settlement on the sums of money concerned.

Q142 Nick Smith: How confident are you that the £170 million you got back is the right amount?

Dame Ursula Brennan: We are confident. Because it is estimating, some of it goes back a long way, but we are confident that the amount we got back is a good number. We had it analysed by PwC, which did its analysis of the numbers. We also got legal advice from counsel about what it was possible to claim. However, we are also in a position such that if the SFO uncovers further issues that we did not discover and should have taken into account, we have a reserved position. In other words, if more went wrong than we were able to identify, that number could be reopened.

Q143 Meg Hillier: I want to widen out the discussion to the issues of governance and risk, on which you touched a little, Dame Ursula, when you said, "We were looking at the wrong thing." Although both of your Departments have been through change in different ways—we can touch on that—are you confident that you are not still looking for the wrong thing? The boxes that might be ticked by the civil service, because of political and reputational pressures and so on, seemed to obfuscate some of the main things at which you should have been looking. Is that fair to say?

Dame Ursula Brennan: Why did we not focus on this stuff earlier? I don't think that it was because of the kind of issues you are describing. We did reduce staffing across the piece, including in contract management, so that was clearly one of the contributing factors. We had limited expertise and we were putting it in the place that we saw as the highest risk, which was the negotiating of the new ones. Why do we think now that we are in a much better position? Because the electronic monitoring was such a serious problem that we did a root and branch review. We got PwC to do an audit and we got our lead non-executive director to do a serious review. He went through it using the NAO's criteria for what we ought to be doing. He did an analysis of where we were, and we have done a comprehensive action plan, and we have really had to tackle everything.

We have re-scoped the way we do governance and accountabilities and responsibilities to get those much clearer. We have got much stronger senior leadership responsibilities, so the executive team that I chair and the departmental board that the Justice Secretary chairs focuses on those issues, not least because our lead non-executive is on the departmental board and he is very interested in the follow-up to his own report. We have changed and are improving the key performance indicators that we have, which enables us to know whether we are measuring the right things. We have got a programme where we have put every single member of our senior civil service through a one-day master class, and we are training hundreds of people in commercial skills, so we have done a comprehensive programme that the NAO says is the right thing to have done and puts us on the right track.

So we recognise that we had a serious problem. We believe we have taken very serious action to transform the way that we deal with this issue.

Q144 Meg Hillier: Mr Sedwill, the Report directly compares the Home Office and the MOJ. It praises the MOJ for its progress—the root and branch and the depth of its approach. Have you learnt anything from the MOJ's approach that you are applying in the Home Office?

Mark Sedwill: Yes. I could give you a very long answer—

Meg Hillier: No, please don't.

Mark Sedwill: I will give a brief one. First, we went through a parallel process once the issues in the MOJ had become apparent. I was involved, as you know, in the cross-Government review. As a result of that, some of our contracts were reviewed by the cross-Government review, which involved PwC and Moore Stephens, and then I commissioned Moore Stephens to do the kind of deeper dive with our own internal audit, as Ursula just described, into those of our contracts that we considered to be at highest risk—so, 14 of our biggest contracts.

We have pursued a range of other improvements to our commercial management. Some were slightly different from the MOJ's, because we perceive our risks to be different, but as we have looked at this Report, and as you may have seen from my letter to Amyas, we have taken those areas where the NAO suggested we actually adopt some of the practices of the MOJ—for example, the score card—and that will become a feature of our commercial management by the end of this financial year. I think the comparative approach is powerful, because it enables us to learn from each other—noting that some of the risks and issues are different and the structures of the Departments are different.

Q145 Meg Hillier: So can you assure us that there are no more cases of over-billing or problems in contracts that the Home Office has—

Chair: Given last week?

Mark Sedwill: We have done a thorough audit of our biggest contracts. As you will be aware from the NAO figures, our auditors found no evidence of over-billing.

Q146 Meg Hillier: Didn't you look at only five, compared with the 27?

Mark Sedwill: No, no; they looked across—

Q147 Meg Hillier: You wrote that in the letter, but I was puzzled as to whether—

Mark Sedwill: Mike may be able to add more detail. We looked at 14 big contracts. We have an internal audit that looks at contracts and commercial management all the time.

Q148 Chair: It wasn't. It is only doing so now.

Mark Sedwill: No, they have always looked at project and programme management. There is a routine run of audit, which internal audit has always done. You must remember we have changed the structure of the Home Office with UKBA coming in.

Q149 Meg Hillier: Sorry, can I just be clear on the numbers you are talking about?

Mark Sedwill: If you look at the Report, through this joint process between our internal auditors and Moore Stephens primarily, we looked at the 14 contracts that our internal auditors and our audit committee, chaired by one of our non-execs, considered to be at the greatest risk. We did a deeper dive, so it was not just a health check. We did a deeper dive—you may remember I described it as a full medical, rather than just a health check—into those contracts. The exam question for the auditors was: was there any indication that meant we should do, for example, a deeper forensic audit of any one of them where you would check many more details of every billing arrangement? They concluded there wasn't and that we had done a thorough enough job.

Q150 Meg Hillier: What was the risk measure that you used to decide on those 14?

Mark Sedwill: It is essentially an audit judgment, so it came to the audit and risk committee and they made a judgment as to the—

Q151 Meg Hillier: So financial?

Mark Sedwill: Primarily financial. The situation with the Home Office—and I talked about this at an earlier hearing—was somewhat different to the MOJ in terms of our commercial management and the sorts of issue that Dame Ursula has been talking about, in the sense of where to focus. Our commercial management had focused tightly on financial management. Our issues were more around some of the performance management and the alignment between the tight commercial financial management and the operational managers and, in some cases, that getting out of alignment.

Q152 Meg Hillier: So how can we be sure if you have just looked at those 14? How can you assure us that the other contracts are all fine? Are you planning to look at those further?

Mark Sedwill: I assure you through the same process as any Government Department. We have an audit programme. It is a risk-based audit programme conducted by internal audit. They, of course, have an independent role, straight to me as the accounting officer. That programme is overseen by our audit and risk committee, which is chaired by one of our non-executive directors—

currently our acting lead non-exec. We have got the practice in place, and in the end I rely on the audit judgment and the risk judgment of the professionals who do this.

Q153 Meg Hillier: What percentage of the contracted-out work do those 14 contracts represent?

Mark Sedwill: About 20%.

Q154 Meg Hillier: So 80% of taxpayers' money spent by the Home Office and other contracts—

Mark Sedwill: It is worth remembering that it is a very uneven distribution. So, 40% of our contracted-out money is spent with our top 17 suppliers—two of them within Government, 15 outside—50% is spent with the next 46 and the remainder with SMEs. That is the way audit is done. Audit in any institution, Government or private, is risk-based. That does not mean that we are not looking at the other 80%, it is just that we looked at these—

Q155 Meg Hillier: That is what I'm driving at.

Mark Sedwill: These were looked at in this deeper way by Moore Stephens, because these were considered be the ones that were at greatest risk in the kind of issues that have been identified.

Q156 Meg Hillier: You two happen to be here in front of us, but there are other Departments that have had problems with contracts, as we know. Of course, audit is on a risk basis, but some of these things weren't uncovered in the past, so what is your approach to ensuring that the other 80% of public spending on these contracts in your Department will be picked up over time? Dame Ursula laid out a training programme and plan with the staff, cascading down to quite junior people. What is the Home Office doing?

Mark Sedwill: We have a commercial management improvement plan that incorporates recommendations from Moore Stephens, the recommendations from the NAO, the lessons learned from the Ministry of Justice and, indeed—because we volunteered to go first—the lessons that have been drawn out of the cross-Government review of commercial capability. That is a consolidated plan led by the chief operating officer, reporting, as in the case of MOJ, to my executive board. There is a constant, rolling programme of audit. We are improving the training and professionalism of our commercial staff—most of this is in the NAO Report. Through our relationships with the contractors, we are seeking to ensure we have the right mechanisms to align that operational and commercial financial margin.

Chair: Okay. I'm going to go to David and then I want to come in with a couple of things.

Joshua Reddaway: To go back to the transaction testing that was undertaken, I want to ask you about the way you take assurance from that. My understanding is that there were four contracts tested under the cross-Government Review and five by the internal Moore Stephens Review. In paragraph 2.33, we refer to the fact that Moore Stephens qualified their opinion there and said that they couldn't actually find all of the information that they needed to do all of that. How did you take that into account when judging? Also, in the high-level review there were an awful lot of problems with the performance management. That was the key area that was flagged up.

Mark Sedwill: The cross-Government review looked at two immigration removal centre contracts and only looked at G4S and Serco—two immigration removal centre contracts and two of the COMPASS asylum support contracts. It was a result of their using the NAO framework that it identified some areas that were sort of flashing amber or red and that they considered were risks. They didn't say they had found anything untoward, but they considered those to be risks. That was what prompted me to ask them to come in and to move, as I described in the vernacular, from a health check to a full medical—not only on those contracts but on similar contracts that our internal auditors and our audit and risk committee considered might have some of the same issues. That is how the 14 were chosen; they were chosen on advice from the professionals. Moore Stephens and our internal auditors reached the judgment that there were issues around the performance management of those contracts, but they did not find any evidence of the financial irregularity or mismanagement that had been my initial concern.

Sir Amyas Morse: I am sorry to make the point again, but they did qualify that by saying that they did not have the full information.

Mark Sedwill: It wasn't that we did not share the full information with them.

Q157 Chair: You didn't have it.

Mark Sedwill: They did a sample. I do not think they perceived the qualification they made as anything other than routine in the circumstances, and they did not qualify the overall judgment in the end.

Chair: But you did not have the information.

Q158 Mr Burrowes: Have you decided that the problem and the solution lie within your commercial directorate?

Mark Sedwill: The short answer is no. Part of the problem and the solution is there, but if you look at the examples I just quoted for the Home Office, the commercial financial management was tight, but the commercial and operational performance management of those suppliers was not as tight as it should have been. That is not just in the commercial directorate; it is in the alignment of the commercial and operational people. We have needed to bring that more closely together so that we are not emphasising one more than the other.

Q159 Mr Burrowes: Who is in charge of and ultimately responsible for those contracts?

Mark Sedwill: For each of the strategic contracts, we have a senior business owner. We are rolling that out to the tier 2 set of contracts as well. A senior business owner is in charge of the business delivery and thus of the commercial partner who is delivering either all or a component of that. That will be at different levels depending on the size and scale of the contract.

Q160 Mr Burrowes: But the governance is different from that of the Ministry of Justice.

Mark Sedwill: We have a slightly different structure. We have governance above that, but if you are asking about individual contracts, there will be an executive oversight board which brings together the commercial, financial, legal and operational people in a relationship with the supplier. Each contract has a senior business owner who is responsible for the delivery of the business and, of course, all of that is overseen by the overarching governance.

Q161 Mr Burrowes: My understanding is that there is a difference in terms of the level of involvement of a senior civil servant.

Mark Sedwill: I don't think so. We might describe it differently, but—

Q162 Mr Burrowes: Would you say it is exactly the same level of quality?

Mark Sedwill: It will depend on the risk we associate with the contract. That risk may be the financial impact of something going wrong, but it might also be the delivery impact. Some contracts are riskier—more politically risky or more high profile—than others in delivery terms, and would probably get a more senior or experienced person than might otherwise be the case, but I do not think there is any appreciable difference in the way we are approaching this.

Dame Ursula Brennan: The same applies in the Ministry of Justice. If you look at the types of contract we have, there are complex ones like electronic monitoring and then purchasing of commodities for prisons, building of prisons and legal aid contracts. They are all very different types of contract. The level at which they are managed on a day-to-day basis will, indeed, vary, but the structure between the two of us that says there is a need for more senior oversight and executive-level scrutiny is the same. We have both—in slightly different ways, because of the different nature of our business—reached that same conclusion.

Q163 Mr Burrowes: Do you both feel that you have sufficient capacity to deal with the problems highlighted—particularly the significant spending pressures highlighted by the NAO Report—and the 2010 recommendations from the Cabinet Office?

Mark Sedwill: I think the answer is that we are on track, but I am not confident that we have exactly what we need yet. That is partly why I wanted the Home Office to go first in this CCS review of commercial capability, so as to enable me to answer that question. Essentially, what is suggested is that we have, broadly speaking, enough people, but in some areas we need to improve their levels of experience and of professional expertise in commercial management. We are ahead of some of the old OGC targets, which set a threshold of 60% of people having commercial qualifications; we are at 66%. Of that 66%, 48% actually have the level 6, which is quite an expert level of commercial qualification. We need to build the professionalism and the experience, but within the total resource pool we have enough people to be able to do that. I would say that it is about upgrading the capability rather than the capacity.

Dame Ursula Brennan: I would make a distinction between financial resources and people and capability. One of the things we have had to do is ensure that we devote financial resource to this, so we have increased our spend in this area. Another thing we have done is to start to work our way around, starting with our biggest and most risky contracts, making sure that we have the investment in the right place for those contracts. So on ensuring that we have the investment, yes, I am confident that we will continue to do that. But it is true that it is really difficult to recruit and retain commercial experts inside Government. We have a problem wherein we recruit people—we keep track of how we are doing on recruitment every month in the executive committee—and we get more people in, but at the same time people leave because they can make so much more money elsewhere. That is difficult.

Q164 Mr Bacon: It is interesting. You or one of the earlier witnesses said that the Tim Breedon review confirmed that it was possible to get better for less. All these people you have who are gaining commercial skills and then going off to the private sector will then be getting paid more—you have just said that they can get so much more money elsewhere. That will increase the costs of the private sector in providing the service. Net, net, net, at the end of the day, you pay for what you get, or, as Ms Beasley was saying, you pay and don't get. If you strip away all the jargon—the deep dives, the forensic audits and all the rest—most members of the public watching this will be quite puzzled that it is possible to go and buy something and not check that you have got it. It is pretty basic and fundamental that if you buy something from a supplier, you check that you have got what you bought, whether it is goods or services. If it is more complex, you would expect to have to put extra resource into checking that you had got what you bought.

If it is true, as the Breedon review apparently says, that it is possible for these private sector suppliers to extract better from less in a way that, broadly speaking, the in-house suppliers do not manage—although Mr Sedwill mentioned a couple of in-house Government suppliers—and yet the private sector suppliers are paying more for these skilled people than you in Government are able to, something is not computing. At the end of the day, the organisations with whom you are contracting have to make a profit. It ought to be possible for Mr and Mrs Taxpayer to buy these services using in-house resources and do it cheaper, because you do not have to pay for the profit or service shareholders in the way that external suppliers do, and you do not have to pay the higher prices for these skilled people whom you cannot retain in-house. Something is not computing. Why is it that they can do it and you can't?

Dame Ursula Brennan: There is an interesting philosophical debate to be had about—

Q165 Mr Bacon: I am not interested in the philosophy; I am interested in the hardcore reality of the fact that for every year of the contract that Ms Beasley was talking about, systematic over-billing was going on, and that when there was reform to try to improve the situation, the amount of over-billing actually went up. That has nothing to do with philosophy.

Dame Ursula Brennan: And the cost went down. It is a complicated story.

Q166 Mr Bacon: I am really not interested in the philosophical heebie-jeebies; I just want to get to the root of this and understand at a practical level how it is that they can do it but apparently it is less easy to do it in-house.

Dame Ursula Brennan: At a practical level, you are talking about two distinct things. One is about the ability to recruit and retain people and what you pay in order to get that expertise. The second is the advantage you get when you outsource a service, which is not simply that you get the same service back for a cheaper rate. When you outsource a service, it is usually because you want something done differently in a different kind of way by people with a different set of—

Q167 Chair: Richard's point is that you could do it differently in-house.

Dame Ursula Brennan: And there are certain services where we do do it differently in-house. If you take the Prison Service, we currently have a regime in which we have some outsourced prisons and some where we are driving down cost internally. But to come back to the point about what we pay for people, there are occasions when you are operating in the public sector in a period of pay restraint which completely makes sense across the public service as a whole, but which gives you difficulties in certain specific areas. One of the things that we have done in recent times is to create in the centre—in the Cabinet Office—a new capability to lead policy on contract management, and I think you are going to be hearing from Bill Crothers and his colleagues about all that later in the week. One of the things they are doing is looking at how we can recruit some of these people who are expensive to recruit and retain, because, otherwise, we have to pay—

Q168 Mr Bacon: My point is these private sector people are obviously recruiting and retaining these more expensive people, yet they are still able to do the job better for less.

Dame Ursula Brennan: That is because they—*[Interruption.]* Well, one could have an interesting debate about—

Mr Bacon: Please finish the sentence; that is what I want you to do.

Dame Ursula Brennan: That is because they structure their organisation in a completely different way, so that their pay regime includes paying higher rates of pay for extremely scarce resource and lower rates of pay for people doing more basic jobs. The pay structure, the pension structure and the organisational structure of private sector companies and the public service are quite different, so simply saying, you know—

Mr Bacon: I don't know. If I knew, I would not be asking the questions.

Dame Ursula Brennan: I think it would be an interesting debate about why we outsource.

Chair: Right. I am going to move us on, folks.

Q169 Mr Bacon: Hang on. I don't just want an interesting debate. This is very interesting, but I am looking for more than just an interesting debate; I am looking for some answers as to why this is, because it is a really interesting phenomenon.

Dame Ursula Brennan: We outsource to do something quite different. If you take Transforming Rehabilitation, we are not outsourcing the probation service to get it delivered more cheaply by a set of private sector suppliers; we are outsourcing it—actually, we are creating it in a completely new kind of way—to have a payment-by-results regime which will deliver us the ability to have flexibility to transform the service that we are delivering. So it is not about saying those people can pay people in a different way; it is about saying we go to the market because the market will bring a different—

Q170 Mr Bacon: You are talking about something in the future that is still experimental. I am talking about things in the past, where it is proven—Tim Breedon said so in his review—that better for less can be achieved by this outsourcing process. You make it sound like the principal problem is the pay in the public sector and the way it is structured.

Dame Ursula Brennan: No, I was not saying that the principal problem is pay, but there was a specific question about whether I thought we had sufficient resource. I was answering honestly that there is a problem at present, which we are seeking to address by looking to see whether we can create a different kind of pay structure for this particular group.

Q171 Mr Bacon: But my point is that, at the end of the day, there is only one cake. You can cut it up in lots of different ways. Of course you can have economic growth, and the cake gets bigger. But if you do not have sufficient resource, then, by definition, the amount of insufficient resource that you are handing over to these private sector contractors ought also to be insufficient, but they seem to be doing the job.

Dame Ursula Brennan: I think we are having a discussion about the economics and the strategy for outsourcing, which it would be very—

Q172 Mr Bacon: I am interested in the effectiveness, the efficiency and the economy—that is the remit of this Committee—of whichever route you take. I am interested in getting the best value for money—the most effective, efficient and economic outcome—for my tax-paying constituents that we can and in doing so in ways that mean you are not systematically over-billed and do not know about it. That's all—it's not that complicated.

Dame Ursula Brennan: And there is consistent evidence over many years, and over different Governments, of the extent to which private sector contracts have delivered value for the taxpayer, transformation for the taxpayer and reform. It is not just about rates of pay.

Q173 Mr Bacon: No, of course it is not just about rates of pay. But, as senior managers of the public services, you should surely be looking to see how you can mimic those improvements in your in-house services and therefore save even more money by doing things in-house.

Dame Ursula Brennan: And, indeed, there are many places where we are doing exactly that.

Q174 Chair: Okay. I am going to move us on. I want to come back to the SFO investigations. I have two or three quick questions, and then I will go to Nick, so perhaps you can answer them quickly. First, you have said to us you can't tell us anything, because the SFO investigations are going on. Can you tell us whether you have a timetable from the SFO?

Dame Ursula Brennan: Just to be clear, the SFO said to us that they did not wish us to continue our investigation into the electronic monitoring while they were conducting their investigation. That is No. 1. In terms of timetables, the SFO do not give you a timetable of how they are operating

Q175 Chair: How are we to judge that the corporate renewal policy is appropriate and sufficient, if we cannot look at what went wrong?

Dame Ursula Brennan: In terms of corporate renewal, the—

Chair: How are we to judge? Just answer the question. Don't give me a big spiel about corporate renewal and how great it is. How can we judge it if we—this Committee—have not got the analysis of what went wrong?

Dame Ursula Brennan: Sorry, all I was going to say was that there is a European Union policy on corporate renewal and the decision about whether we award contracts to suppliers who have created a problem.

Q176 Chair: I just don't accept that.

Dame Ursula Brennan: Well, there is a policy and the Cabinet Office operates according to that policy in determining what evidence it has about what contractors have done and what evidence it takes into account.

Q177 Chair: You are answering a different question. How can we have confidence that corporate renewal, which has been undertaken by Government to deal with these problems of overcharging, is effective, if we cannot look at what went wrong? You are telling us that you are not allowed to do any more work on what went wrong and we certainly cannot do it because the SFO said no.

Dame Ursula Brennan: Sorry, I did not mean to say that we were not doing work about what went wrong. We did the Breeden report and the PwC report and we took from that. You asked about what we were doing about corporate renewal—what Government are doing to ensure that they do not get into that problem again, and we are really clear about what we are doing about that. In relation to the SFO investigation, there is a set of cross-Government policies that derive from European Union policies in terms of procurement directives under which decisions are made about the award of contracts.

Q178 Chair: I do not think you have answered the question. If we are to know whether the corporate renewal strategy is effective, we need to know and have in the public domain what went wrong. That is all. It is a very simple point. At the moment there is delay in the system because we are all waiting for the SFO to report. I was not asking about the SFO and whether you should be offering contracts to people who are being investigated by the SFO. Just for the record, I do not accept the argument about Europe. There are ways round that rule. I have done them myself. There are ways round that rule that you can perfectly well administer. If we are to have confidence in future in the way in which you contract, we ought to have a proper analysis of what went wrong. That's all.

Dame Ursula Brennan: The companies concerned, in relation to corporate renewal, have had to set out for the Cabinet Office committee that looks at this issue what they are doing in order to acknowledge where problems were and to address them. Quite clearly, while the SFO investigation is ongoing, that piece of work is not complete, but the companies have said, "These are the things that we believe we are doing that address the issues that we have uncovered." The Cabinet Office has taken legal advice to go through those propositions from the companies and has taken those into account, in line with the EU procurement procedures.

Q179 Chair: That is a really interesting answer. It makes me a little bit more worried, because what I think comes out of that answer is that you are dependent on the information that you are getting from the companies to decide whether your corporate renewal strategy is efficient. We want the partnership and co-operation with the companies. But one of the problems that comes out of all the absolutely abysmal record on contracting is that we have been over-dependent on the information that contractors who have contracted with us give us. We have not had this independent check on it.

Dame Ursula Brennan: As I said, in terms of the independent check, the companies—

Q180 Chair: You always do this. Just answer the question.

Dame Ursula Brennan: Grant Thornton provided and audited. Audit is a word used in lots of different ways. Grant Thornton audited the proposals that came back from the companies. We did not just say, "Tell us what you think and we will just note it." There was a dialogue about what it was acceptable to expect the companies to produce and Grant Thornton did an analysis of their proposition. So it was not just them sending us their proposals.

Q181 Chair: Can I ask a completely different question, and then I am going to Nick? Do you both have a hospitality register in your Departments?

Dame Ursula Brennan: Yes. We have hospitality registers.

Q182 Chair: And can you share them with us?

Dame Ursula Brennan: I think we publish them. I think they are published every year, every quarter.

Q183 Chair: Can you tell us how much you have spent with the various people with whom you contract, and how much hospitality has been enjoyed by your top 15 contractors?

Mark Sedwill: I don't have it to hand, but we could probably produce it. I think that, partly because of the transparency, you would not find there is that much, to be honest but we certainly publish the data.

Q184 Chair: And are you completely happy that the hospitality registers are complete?

Dame Ursula Brennan: This is something that has existed in government for decades.

Q185 Chair: But are people filling them in?

Dame Ursula Brennan: That process has become much more rigorous because of the business of publishing them. The checking of them is now much stronger than it was a few years ago. You can never guarantee that somebody has not missed something, but, yes, I am confident that people are filling in the hospitality registers.

Chair: It would be very helpful to have a note on the extent of the hospitality of your top 15 or 20 suppliers.

Q186 Nick Smith: Earlier in the session, Mr Soames from Serco talked about the value of open book as a method for understanding contractors' ways of working, how much profit they make and where they make it. I have been trying to bend my head around it as an ordinary layman. Dame Ursula, could you tell us how open book would help you assess the performance of a contractor, and specifically how it would have helped you better to understand the leakage of between £15 million and £20 million a year that was gained by G4S out of the tagging contract?

Dame Ursula Brennan: Our standard terms and conditions with our contractors require what amounts to open book. They require that the contractor makes available to us the information that we want in order to be able to audit, and that they must allow us free-of-charge access to that data so we can examine it. The critical thing is to ask the right questions. Simply having open book takes you only so far. If you don't have open book, that is a problem, but, having got open book, you need to know that you are asking the right question to be able to understand whether you are getting the right answer. That is why we are doing a lot of work on our contract management improvement plan to identify the key pieces of information that we think we will require in each individual contract, so that when we have an open book requirement, we are clear that if we ask for information it will be the key information that tells us what we need to know.

Q187 Nick Smith: Thank you for that. I am sort of getting a better understanding of it all. How would you have used that approach to stop the £15 million to £20 million a year leaking out of your Department on overcharging and billing?

Dame Ursula Brennan: It comes back to asking for the right information from the supplier and being able to go in and audit it.

Q188 Nick Smith: So how would you have done that? What information would you have asked for?

Dame Ursula Brennan: What information in relation to that contract?

Q189 Nick Smith: Yes.

Dame Ursula Brennan: It would have related to some technical details to do with the numbers who were tagged and the time for which they were tagged. Their IT systems recorded a lot of information, and we were collecting some information, but we were not asking precisely the right question. Probably the key thing was in relation to the length of time for which people were being tagged.

Q190 Nick Smith: I am listening intently. You used words such as “technical”, “IT” and “questions”, but could you be a bit more precise?

Dame Ursula Brennan: Sorry, on any kind of contract of this sort, the supplier will have a database with an enormous amount of information. In this case, people were having ankle tags put on them. They will have information about numbers, times, dates and money. They will collect and analyse it, and they will play it back to us in lots of different ways.

Q191 Nick Smith: I get that, but how would open book help you to understand what that meant?

Dame Ursula Brennan: Open book doesn’t affect any of that, unless you know the key pieces of information that you need. I think that at the time we had open book in relation to that mass of information, but we were not asking the right question about the key performance indicators. We did not have the right key performance indicators, and therefore the open book was giving us lots of information, but it was not giving us the piece of information that revealed the over-billing problem.

Q192 Nick Smith: Ms Beasley, do you want to add to that? It seems that you had open book at the time, but it wouldn’t have helped you in this specific case. Is that right?

Ann Beasley: Well, I think it would. Could I just correct what I said earlier? The £179.4 million was both G4S and Serco and on all five contracts.

Q193 Nick Smith: Okay. Let’s concentrate on G4S and the £140 million they talked about—

Ann Beasley: But in either of them, the key pieces of information that it would have been really helpful to have known would have been to go back to source and understand exactly how many separate individuals were currently on a tag. That was difficult because within both suppliers there was a disconnect between their operational systems and their billing systems. That was the difficulty: we were paying for orders and not individuals.

Q194 Nick Smith: This is not really about open book in that case, is it?

Ann Beasley: If we had exercised open book—eventually, we sent in PwC to look at the source data within both suppliers and identify how many separate individuals were currently being monitored and at things like the average length of time, which would have told us that we had got some very long orders. That would have then told us that we had a problem—partly within our system—with closing the orders down in a timely way and, if we had exercised our right earlier, we would have discovered that earlier.

Q195 Nick Smith: I am trying to deconstruct that a little. So you had open book, but you did not exercise it appropriately by not knowing enough about the length of time that some individuals had the tags.

Ann Beasley: Both the length of the order that the individual had been on and how many separate individuals there were.

Dame Ursula Brennan: That is the key point. We had open book, we were getting data and we needed to ask some different specific questions. If we had done that, at any rate we would have flagged an alert that said, "Something doesn't look right here." So having open book is step one. Step two is knowing what the key pieces of information are that enable you to know that you are getting exactly the information you need to tell you whether the thing is being run successfully.

Q196 Nick Smith: You already have open book, if you had it then. Do you think you now know what those key questions are for those important contracts?

Dame Ursula Brennan: We are working our way through contracts, contract by contract, to go through that data. Sometimes we have far too many key performance indicators: I think there is one where we had 200 and we have moved that down to 50. That is part of the difficulty: if you say—

Q197 Nick Smith: That still sounds a lot to me.

Dame Ursula Brennan: It still sounds a lot, but sometimes you are measuring complicated things and, if you have open book and a wealth of data, you can be blinded by the amount of information you have got. So we are working our way through, saying, "What are the absolutely critical pieces of information which will be key for us to understand the success of this contract?" It is that more than the open book, because we have got that already, and that will make the difference here.

Q198 Nick Smith: Can I just pick you up on something that I tried to take forward earlier? Do you know how much the bosses of Serco and G4S earn?

Dame Ursula Brennan: I suspect I have read that somewhere, but I do not off hand.

Nick Smith: Is that part of open book?

Chris Heaton-Harris: That doesn't need to be part of it, because that is in the company records.

Q199 Nick Smith: But do you know?

Dame Ursula Brennan: I have seen that information somewhere, but I do not personally off hand recall—

Q200 Nick Smith: Do you know if they get bonuses for these deeply flawed contracts?

Dame Ursula Brennan: One of the issues that is relevant to KPIs and so on and the corporate renewal is: does the company have a bonus scheme which incentivises people to game the contract? If they do, that is an issue that we do not want to see. So one of the things that we now look at is how people are being incentivised in relation to contracts, because we do not want staff in the contractor's company incentivised to operate in a way that will damage the delivery of value for money to the Government.

Q201 Nick Smith: How much of that have you found and what have you done about it?

Dame Ursula Brennan: It is that kind of issue that, no doubt, the SFO will look at in relation to their exploration.

Q202 Nick Smith: Did you look at that in relation to the tagging contract?

Dame Ursula Brennan: As I said, we looked at a lot of stuff in relation to tagging and it was as a result of what we identified that we referred it to the SFO.

Q203 Austin Mitchell: Let me round off the open book argument. Are you negotiating open-book access with all your new contracts?

Dame Ursula Brennan: As I said, it was already a standard term. What we are doing now is ensuring that we are using open book actively. We had it there, available to us. We were not using it as actively as we should. That is what we are now doing.

Q204 Austin Mitchell: Do you have open-book access with all your existing contracts?

Dame Ursula Brennan: I think it must apply to all our existing contracts. We have had it as a standard term for quite some time.

Q205 Austin Mitchell: What is the case with the Home Office? Do you have open-book access in all new contracts and have you negotiated open-book access to existing contracts?

Mark Sedwill: Yes, with new but not with all the existing contracts. Another point that I wanted to make in response to Mr Smith's questioning is that the other benefit of open book is not just what direct information you can use. It is a little bit like publishing Government transparency data; it changes the rules of the game for the companies as well. It means that the attitude needs to be different because they know they are going to be under potentially greater scrutiny. As Dame Ursula said, you have got to ensure that you are asking the right questions but it is worth keeping in mind that there is a change in attitude that comes with open book. That is why we are now including in contracts—I think we have now done it in our first contract—and I think that others are too, a specific clause about whistleblowing, for example, within the companies, to get at exactly the same set of issues that Dame Ursula was talking about with their staff being incentivised to behave appropriately.

Q206 Austin Mitchell: I have one further question on the equal balance argument that I was airing earlier. People do not go into the Home Office to negotiate contracts or do commercial deals. They go in to stop people from doing naughty things and to stop people enjoying themselves. That is their motivation. People go into the Ministry of Justice to uphold the majesty of the law and seem to just get good dinners and things like that. They do not go in to become commercial negotiators. Are you satisfied that you have the staff with the commercial competence, the nous and the pay level—they are dealing with greedy capitalist organisations that will pay them more to go elsewhere—to negotiate good contracts for the taxpayer and to invigilate the performance on those contracts?

Mark Sedwill: Briefly, on the first point: you are right that people go into the Home Office because they want to keep the public safe. That is what motivates them as public servants. They recognise, to go to Mr Bacon’s earlier point, that in many areas the best way to deliver that is through commercial arrangements or, at least, components of that are through commercial arrangements. People in our commercial directorate take as much pride in being part of the Home Office and that overall ethos as civil servants writing a piece of legislation or working on a Bill team. On your second point about capability—Mr Burrowes was asking about this earlier—we think we have, broadly speaking, the right level of resources but we need to improve the levels of experience and capability in that. We are in reasonably good shape; 48% of our commercial team have the level 6 qualification in commercial and procurement management and another 18% have levels 4 and 5.

Q207 Austin Mitchell: And you can pay them enough to keep them?

Mark Sedwill: Mostly, yes. There is turnover of course but—

Q208 Chair: How many consultants have you got, Mr Sedwill?

Mark Sedwill: Not in the commercial directorate.

Q209 Chair: Any of that—you have no consultants working? You have actually. I will tell you. You have Deloitte doing your e-Borders contract. They have a heck of a lot of money out of that and took a long time to get it—37 million quid so far, I think.

Mike Parsons: In terms of the commercial directorate of 183 staff, we have 13 vacancies. We do not have consultants filling—

Q210 Chair: How many consultants are you currently employing to run contracts or to look at the commercial aspect? I don't know what you call these guys but anybody who is involved in supporting you in letting, running or managing contracts?

Mark Sedwill: We would have to come back to you because we do employ consultants.

Q211 Chair: We are going to come back to this one, but what I have says that Deloitte has £37 million on the ghastly e-Borders contract. Then, having got you in a rotten contract in the first instance, they are now back advising you on the further solution.

Mark Sedwill: I will have to come back to you. I do not recognise that specific number. We will have to come back to you.

Q212 Chair: Thank you. Ursula, the Report says that you have 35 consultants in total.

Dame Ursula Brennan: I would distinguish between the people we have as contractors, where we have a vacancy and we fill that by employing a contractor—that is the 35 referred to. We sometimes use consultants to perform a service. That is the difference with "body shopping" a vacancy; you can't get a civil servant to fill it, so you hire a contractor.

Q213 Chair: What was your expenditure in the last financial year in relation to the whole of procurement, management and financial monitoring of your contracts with private sector companies?

Dame Ursula Brennan: I will have to come back to you if you want to know the money we are spending on consultants and the cost of those individual contractors.

Chair: It is the consultants that support the delivery and procurement of the contracts with private sectors. I am trying to pull up how much we have in-house, and how much we are buying in expensively, à la Deloitte with Raytheon with consultants.

Q214 Meg Hillier: Dame Ursula, the NAO has been quite positive about your approach to this, but can you afford to provide the same level of oversight and management across all contracts?

Dame Ursula Brennan: One thing we are doing is investment in training. That will enable us to train civil servants who will be cheaper than contractors and consultancy support. That is No. 1 and No. 2 is that we have simply taken the view that we are engaged in a certain amount of business—contract management business and commercial business—and we need to be able to resource that, so we have re-looked at our budgets and said, "We have to be able to do that and do it properly." If we cannot do it, we will have to curtail the amount of business we do, because we cannot say to ourselves we can do this half-resourced, so we have just taken a decision that that—

Q215 Meg Hillier: So you are telling us that momentum will not stop after the spotlight—

Dame Ursula Brennan: No. One thing we were really conscious of was that we needed to make a change that would be permanent. As I said, we have done a number of things. The fact that our lead non-exec actually did the review means that he keeps our feet to the fire on this, and regularly seeks updates on how we are proceeding. We have set up business processes so that we are not just reliant on having put some good people in place that will do the right thing and then move on over time. We are trying to put approvals systems, accountability systems and training in place so that it becomes self-reinforcing. The executives team spends quite a lot of its time on major change programmes and major contracts, and the commercial approach that we will use for contract management. It occupies a lot of our time now.

Q216 Meg Hillier: Mr Sedwill, both you and Dame Ursula run Departments with important responsibilities. You are dealing with counter-terrorism and big world issues. Will momentum on this disappear? You mentioned earlier that civil servants are equally proud to run a commercial contract, but are they really going to get the same level of promotion? Look at your route through, for instance, to becoming one of the new appointees as Permanent Secretary. Will that route continue in the civil service? Will they really get rewarded?

Mark Sedwill: I would be surprised if people who have come through my route end up in this job very often, but I think that is the general intent. It has been set out by the Minister for the Cabinet Office that, in future, Permanent Secretaries should have commercial and operational, as well as policy, experience. We both have some of that, and our predecessors 10 to 15 years ago will have come almost entirely through the policy legislative route. There are more Permanent Secretaries now with significant commercial and operational experience.

Q217 Meg Hillier: Will momentum continue on the contract management?

Mark Sedwill: Yes, it will. The way we run the Home Office executive board—by the way, Madam Chair, I now have the data so I can give you that answer in a second, or at least part of the answer—is that we look at what we call all of our enablers once a month. That includes all of our commercial operations. Once a month, we look at our big immigration, borders and other operations. That means there is a mechanism by which the top executive team—including those who are not doing this day to day, such as people running the OSCT and the crime and policing group—are engaged directly as part of the senior team in commercial management, facilities management and the other issues that essentially ensure we are getting the delivery of the Home Office objectives right.

Q218 Meg Hillier: I have the advantage, if one could call it that, of having sat on that Home Office executive board. Perhaps things now are different from those days, but I am not sure that every single directorate was as engaged with every single issue as you have just presented. If you are dealing with counter-terrorism or the political priority of immigration, there might be a tendency to think that those issues are more important than the contract management for some widget production—not that you produce widgets in the Home Office, but you know what I mean: something that seems less important than, perhaps, world matters.

Mark Sedwill: The point I am making is that even those people on the overall executive team are engaged. Below that, there are people who do this as their full-time job. Mike Parsons, the chief operating officer, does that. He chairs a new body called the portfolio and investment committee, which looks at ongoing contracts as well as new procurements, which is all its predecessor looked at in the past. We have the audit and risk committee, which he is on, I am on and the finance director is on. We have people doing this full time, but the overall executive team also knows that they have a collective responsibility as well.

Q219 Chair: And the answers to the other questions?

Mark Sedwill: I will have to come back to you on the breakout you asked for, but total consultancy spend in the Home Office in 2010-11was £64 million. In 2013-14, it was £18 million and it is anticipated to be under £15 million this year.

Q220 Meg Hillier: I have two quick questions to both witnesses. Do you think that these bodies were too big to fail? What would you have done if those contractors had either walked away or been sacked, or, if that does happen, what will you do?

Dame Ursula Brennan: I do not think that they have proved too big to fail. If you look at our Transforming Rehabilitation competition, both of those suppliers—the two biggest suppliers in the Department—withdrew from that, and we still have a very healthy market. Indeed, one of the many lessons we have taken into that contract, as well as other contracts we have recently been letting, has been to say, "If we are doing something on a big scale, we must structure it so that no one supplier can have too large a market share of the business that they are undertaking." But no, I do not think it was the case that they were too big to fail.

Q221 Chair: It is ever more extraordinary that they were ever allowed to tender for anything when the SFO is investigating them both.

Mark Sedwill: I have the same answer: no, for exactly the same reasons that Dame Ursula set out. We seek to try to ensure that each area in which we are looking for private sector input is contestable. In the same way, although it was not possible legally to say, "You may not bid," in the case of one contract for which one of those suppliers would be bidding we made it clear at the very early stages that we would not welcome a bid. They therefore voluntarily stepped aside from an area of business in which they might otherwise have expected to make a competitive bid. We managed to run a competitive process and bring in a different supplier.

Q222 Meg Hillier: My final question, which we always ask, is, where does the buck now stop? You have both given a description of your new procedures and policies, and you have discussed the positive views about momentum and how you are managing capacity—we will take that all as read and test you on it—but if something goes wrong, whose neck is on the block? Is it yours, or is there some underling? Or is it the executive board? Who is responsible?

Dame Ursula Brennan: When something goes wrong in a Department, the accounting officer is responsible. Obviously, if someone has done something when there were very clear rules and they have broken them, that person is responsible, but the accounting officer is responsible for setting up the framework within which people operate. If you are asking about something going wrong with that framework, I accept that that is the accounting officer's responsibility.

Mark Sedwill: I agree with that entirely, so I will not repeat it. The only point I will add is that through the system of SROs for big projects and programmes, and through what we are adopting, which in a sense is parallel to that— senior business owners for ongoing contracts—it is and should be much clearer who has the accountability either for individual supplier relationships or for individual contracts. Of course, if something goes wrong or there is underperformance in those contracts, there are—or, potentially, if it goes very badly wrong and there has been negligence or something more serious, there may be—performance issues for the individuals concerned, but they know it is their job to make sure their contractors deliver the business outcomes, and their futures and their annual appraisals and all the rest of it will be conditioned on that.

Chair: Richard has got one and I have got two, and I think we are done then.

Mr Bacon: Chair, I have just got one more, and that is that today is a very significant birthday for you, and we thought it would be quite wrong to let this Committee not mark it officially. We have one or two things; there is one more in that bag, if you would not mind—thank you.

First of all, obviously as a champagne socialist you will be needing this. You may recognise this box, but don't say. You must open it now because otherwise you will not get the point.

Chair: Honestly, you are kind—or I don't know, actually. Brilliant—completely brilliant. PAC mugs, fantastic.

Mr Bacon: In all the party colours. We also have a card here, and just to show how much the witnesses love coming, they have all managed to sign this card. I am afraid the conspiracy is not complete, because I don't think the Treasury managed to sign it, but we will get a policy statement from them later. Here is the card; you will have to read what is on the inscription, I am afraid, out loud, for the record.

Chair: "Margaret had always been extremely taciturn by nature"—ask my kids that—"but she finally plucked up the courage to have her say."

Sir Amyas Morse: I am just going to add another bit of evidence; in case anybody cannot see I am referring to—*[Interruption.]*

Dame Ursula Brennan: Is that an in-house cake? Who is the "Bake Off" expert?

Gabrielle Cohen: The Director of Parliamentary Relations.

Chair: Thank you so much everybody. I don't deserve it. The only thing to say to you is I am here to stay.