

Public Accounts Committee

Oral evidence: Follow up on transforming contract management, HC 711

Monday 8th February 2016

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Members present: Meg Hillier (Chair); Deidre Brock; Chris Evans; Caroline Flint; Mr Stewart Jackson; Nigel Mills; David Mowat; Stephen Phillips; John Pugh; Anne-Marie Trevelyan

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

Witnesses: Richard Heaton, Permanent Secretary, Ministry of Justice, John Manzoni, Chief Executive of the Civil Service and Permanent Secretary, Cabinet Office, and Mark Sedwill, Permanent Secretary, Home Office, gave evidence.

Chair: Welcome, gentlemen and everybody, to the Public Accounts Committee. Today we are looking at the issue of transforming Government's contract management. We did a Report on this, as some of you will remember—I think Mr Manzoni was here at the time—in 2014. We had a hearing in September 2014 and a Report in November 2014. Many members of the Committee will not have been around at that time and some of you have moved roles in that time. But it is a very big and perennial concern for us as a Committee, as you know, and it has come up even in this Parliament quite frequently. We looked at the military flying contract, where it was a concern and where project management came in; and only last week we looked at contracted-out health and disability assessments and quizzed the DWP about its management of that contract.

It is worth reminding ourselves that in 2014 the previous Committee concluded that “the problems with contracting are widespread, long standing and rooted in the culture of the civil service.” We recognise that that means that these things do not get solved overnight, but we are keen to keep looking at this and to keep challenging both you, Mr Manzoni, and the Cabinet Office, at the centre, and Departments, so gentlemen, you are here to represent wider Whitehall, but it happens to be the case that you are here for various reasons.

This hearing, for anyone who is tuning in, is on the Department's own reports of their progress, rather than a National Audit Office Report, so it is a chance for us to get to grips with what is going well and where the challenges are. We want to push you particularly on the pace and consistency of departmental efforts to reform your governance systems and processes for managing contracts, including internal audit; the development of a new and, we hope, strong commercial function across Government, which Mr Manzoni talks about every time he comes before us and we are keen to hear more about; and whether contractors still have too much opportunity to hide problems with their performance and how that is being tackled with greater transparency, including use of the open book and internal audit, as I mentioned. So I'm going to hand over to Stephen Phillips, who is leading for us today along with David Mowat.

Q1 Stephen Phillips: Mr Manzoni, can I start with you?

John Manzoni: Why not?

Q2 Stephen Phillips: I want to go back to this point about the culture within Whitehall in relation to contract management and how you see it changing. In the 2014 Report to which the Chair referred, we recorded that central Government had long neglected contract management and hadn't developed the resources and expertise to place and oversee the increasing number of contracts that were increasingly used to deliver public services. I have a simple question: is it changing and is it getting better?

John Manzoni: The answer is, yes, I think it's changing and, yes, I think it's getting better. Do I think we have a long way to go? Yes, I think we still have a long way to go.

Q3 Stephen Phillips: We were also told, I think by your predecessor in relation to our predecessor Committee's Report, that all the glamour was in procurement in the civil service and not actually in running contracts. Do you think that's changing as well?

John Manzoni: When we did the commercial capability reviews, which was about 12 or 18 months ago, one of the main conclusions was exactly that. There is a cycle of market condition, procurement and contract management, and lots of focus was on the procurement in the middle with insufficient focus on both ends. We are addressing that now, and I think we are beginning to see some examples of where those things are starting to change.

Q4 Stephen Phillips: If we had a scale of where we were when Government were not great at managing contracts and where you in the Cabinet Office want to be once this process is complete, how far through do you think you are?

John Manzoni: Across the system as a whole, two to three out of five.

Q5 Stephen Phillips: Out of five. So about 40% to 60% of the way through—about halfway. What are the remaining steps that need to be taken in order to ensure that contract management by the Government is in the place where we all want it to be?

John Manzoni: We have just issued a set of commercial standards. There are 14 standards covering—I have them written down—things such as the skills required for the job, a review of the pipeline ahead so that we can see what is coming down the pipe at us, early market engagement and how well we do that, use of the open-book model contract, contract management standards and principles—all of which have been issued since your last review of this—senior engagement, and the voice of commercial at the executive table. For the entire suite of contracts, if I were to define where we want to be when we are done, it is all embodied in a set of commercial standards. We are at different places on different elements of those 14 standards across the system, and different Departments are in different places. It is a complex question, but that embodies what we are trying to achieve.

Q6 Stephen Phillips: So if we look at the 14 standards that the Cabinet Office has just published, they are supposed to apply as the gold standard across Government. Is that right?

John Manzoni: Yes.

Q7 Stephen Phillips: When you gave me your 40% to 60% answer, does that involve none of those being yet implemented, or some?

John Manzoni: No, some of them are. The first and most important of all of these is—you've heard me say this before—the rebuilding of commercial skills across Government. As for the steps that we are taking or have taken on that, we have launched centrally a series of recruitment exercises. We have deployed 12. It's only 12, but we have a target of 25. We have hired 12 at PB2 level and 19 at the level below that, and they have been put in place. Ten of those are from the outside. We have 70 fast streamers who joined the system this year. We also have 30 apprentices who joined the system this year with a particular commercial capability and career track ahead of them. We are about to launch another recruitment round on the outside for 40 more at PB1 level.

I believe that that is just the beginning. Those are some of the things we have done over the course of the past 12 months. We have put in place a proposal, which is in its final stages of agreement, to take, essentially, a more holistic view of the top 400 to 600 commercial posts across Government. We have put in place a development centre and an assessment centre with accredited standards for its assessments. Those are all things we are doing for the commercial fraternity. In addition to that, we have done quite a lot of more broad, non-specialist commercial training coming through the Department.

Q8 Stephen Phillips: When were these standards published? We knew that they were coming in February 2016, but unfortunately they have not formed any part of the briefing I have had for this—

John Manzoni: I'm afraid they were published only in the past week or two. I think your briefing was in November last year, and they were published—

Stephen Phillips: I meant the briefing in preparation for this hearing.

Chair: Joshua Reddaway can confirm the date.

Joshua Reddaway: They were published on Thursday.

John Manzoni: Yes, on Thursday, but they have been in the works.

Q9 Stephen Phillips: That leads to the question of why, given the fact that the Report we are looking at again was published in late 2014, it has taken until February 2016 to publish the standards that are supposed to be the gold standard across all Departments in central Government.

John Manzoni: I have had this conversation with colleagues, and my observation is that in some ways there has been no centre. In order to create a set of commercial standards that are, if you like, the standard across Government, one has to have a coherent centre of Government, and a—

Q10 Stephen Phillips: That centre is the Cabinet Office. You are the ones who are responsible here and you should be the ones imposing these standards across Government, so why has it taken 16 months?

John Manzoni: I would have loved it to have been quicker, but it hasn't been.

Q11 Stephen Phillips: Let's go back to your answer about Departments being in different places on contract management and, indeed, in relation to these standards. I would like complete frankness, please: which are the three top Departments and which are the three bottom?

John Manzoni: I think the MOD has pretty reasonable commercial capability. DWP has made big strides on commercial capability. In other words, it has restructured its commercial organisation—it has hired four of the most senior 12 people I just mentioned. Some of the other bigger Departments are in some senses less important. DECC has very good corporate finance capability, which is what it needs for what it's doing. I think it is still a work in progress in the Department of Health, which is complex. In HMRC today we have the capability, it just happens to be a capability that is predominantly provided by people who are not civil servants. So those are a couple that are at the bottom—or at the top of my worry list.

Q12 Stephen Phillips: Okay, so just HMRC, which is obviously the responsibility of the Treasury, and the DOH. Who else is giving you cause for concern?

John Manzoni: I spend my life concerned—it is a sign of paranoia. In Richard’s organisation, we are still working through that. In Mark’s organisation we had a misfire with an external—

Q13 Chair: Can we talk not about Richard and Mark but by Department?

John Manzoni: Sorry, the Home Office and the Ministry of Justice. In the Home Office we had a misfire. We hired somebody from the outside and it didn’t work out.

Q14 Stephen Phillips: It will come as no surprise to Mr Sedwill that I may come back to that.

John Manzoni: Sure. Those are the ones that I worry about the most.

Q15 Stephen Phillips: You have very kindly provided us with a submission on all Departments’ efforts to improve their commercial capability, but it does not go into the commercial capability of each of the Departments. As I understand it, in 2014-15 you and the Treasury undertook a review of the 10 Departments with the largest spend, and the seven other Departments were asked to complete self-assessments. Given the importance of this matter in Government, why did you not go into all Departments and conduct that capability review? Why did you do it in only 10 of them, rather than all 17?

John Manzoni: It is like all things: one obviously has to pick priorities. Priorities were picked at the time and they picked the top 10 and asked the other seven to do it for themselves. It was about prioritisation and resource. The capability review was not an inexpensive act. It used external third parties. I was not here when it was started, but I think it took 10 months, or something to go around all of the Departments, using these third parties. So I think we had a good crack at the top 10, and the seven were asked to do it for themselves.

Q16 Stephen Phillips: What is the spend of the seven, in terms of their spend on commercial contracts?

John Manzoni: I don’t know the answer to that.

Q17 Stephen Phillips: Could you write to us?

John Manzoni: Yes, of course. I can check it and can probably give it to you before the end.

Q18 Stephen Phillips: You can give us the information. I just want the information. It is not necessarily a question that you could have anticipated, so I am interested in the answer.

Of the seven Departments where no commercial capability review was undertaken by the Cabinet Office and the Treasury, only three of those have completed their self-assessments. Is that right?

John Manzoni: I think that's right, yes.

Q19 Stephen Phillips: So what are you doing to pursue the other four?

John Manzoni: Asking for the self-assessments. Actually, to some degree it has been overtaken by a new request, which is a request for a blueprint, which essentially—

Q20 Stephen Phillips: I don't want to interrupt you, but let's stop you there. Have you told them that as a result of whatever it is that's coming down the tracks—the blueprint—they don't need to do what they were asked to do, and what three of the seven who were asked to complete self-assessments have actually managed to do?

John Manzoni: So the answer to your first question is £39 billion out of £44 billion total was the top 10 Departments.

Q21 Stephen Phillips: Well, okay; if we go back then, that is a very useful answer. It means that there is £5 billion of public money which is being spent by the seven Departments that are not subject to the commercial capability review undertaken by the Treasury and yourselves.

John Manzoni: That time. I think we'll get it this time.

Q22 Stephen Phillips: Let's go back to the question that I was asking. Have you told the four Departments who haven't completed the self-assessments they were asked for by the Cabinet Office that those are no longer required?

John Manzoni: I don't think we've told them that they are no longer required. I think we have actually revised the request and said they need to do a blueprint initially by March '16. They won't all do it by March this year, but I think we have asked for a blueprint, which is essentially the same thing, which is to say "How do you construct your commercial organisation? What's the pipeline of things coming at you?"—a series of questions around a "blueprint", and we have asked for that by March. They won't all do it, but most of them, I believe, will.

Q23 Stephen Phillips: Three of these seven Departments have managed to do the work that you asked them to do. What excuses have the other four given? First of all, do you know who the other four are? Because I don't.

John Manzoni: I don't have a list in front of me.

Q24 Stephen Phillips: Okay, could you let us know?

John Manzoni: I am sure we will do that.

Q25 Stephen Phillips: Do you know what excuses they have offered as to why they have not done what they were asked to do by the Cabinet Office?

John Manzoni: I think this is an interesting question, because I think what's happening here is that, as you said in your opening, if you have a cultural change to make, just because the Cabinet Office happens to ask a bunch of questions doesn't mean that everybody jumps to attention; because actually it is up to the Departments to do their commercial—they are accountable for the outcome of their commercial capability. They are accountable for all of those things. So I actually think this about a large organisation—getting a large organisation's attention.

I think the Cabinet Office, actually, having done the reviews, was then focused on the recruitments that I have discussed, which took a lot longer than we had hoped that they might, and was a lot harder than we had hoped that it might be. So in some senses, I have to say, I think from the centre we took our attention off the reviews and on to the recruitment; and that allowed the system not to be held to account every month, or whatever it was. I think we did have a process, actually, of checking—of finding out how we were doing on the specific recommendation of the 10. I don't think we followed up as hard as we might have, of the seven that were doing their own reviews.

Q26 Stephen Phillips: It is disappointing, isn't it, Mr Manzoni, that this is something where the PAC published a Report, the Government said in its response, in the Treasury minutes, "That's a very useful Report; this is an important issue across government," you then conduct a review in relation to 10 Departments, you ask seven of them to complete self-assessments, and four of those Departments don't even bother to respond to the Cabinet Office. It is both surprising and very disappointing.

John Manzoni: I think it's to do with the development of the centre of Government, and how the centre of Government interacts with Departments. The centre of Government can easily become shrill, and unless the centre of Government has the right capabilities inside it and can interact in a mature and sensible way with Departments, it is just not effective. It is a question of how we build capability at the centre in order to inquire of Departments in an intelligent and helpful yet challenging way.

It may well be disappointing, but I think we are changing that now. We have substantially more capability in the centre to interact in a way that Departments find both

challenging and more constructive, as opposed to just being shrill. For instance, there have been many reviews of commercial capability across Departments—your own, the NAO, has a frame, and the commercial capability review that Bill Crothers and John Kingman did had a different frame—so if one is not careful, there is simply another set of questions and another set of data requirements. Of course I am disappointed that we are not moving faster, or that we have not moved faster. Actually, we have taken substantial steps to accelerate this pace, which is why I gave you two to three out of five.

Q27 Stephen Phillips: I am grateful for that. Can I go back to the 10 Departments that were reviewed in the commercial capability reviews conducted by the Cabinet Office and the Treasury? There were 96 recommendations that arose as a result of those reviews. Certainly when the note was very kindly prepared by the Cabinet Office and sent to the Committee in preparation for this hearing, only 24 of those 96 recommendations had been fully completed. Why?

John Manzoni: The answer is now 37 out of 96. Why? I think it is the same answer that I gave you before. I think that, actually, the Cabinet Office, to some degree, because of very limited resources at the centre, went off and concentrated on recruitment.

Q28 Stephen Phillips: Recruiting commercial staff is only one of the tools that you have identified in the note, which I haven't seen, on the 14 gold standards for commercial contract management. There are 13 other areas that you have identified, and 37 of 96 recommendations have now been fully completed, but is there a complete lack of understanding within Departments that this is an important area that requires focus, that recommendations should be complied with and that Departments need to take this seriously?

John Manzoni: I don't think there is a complete lack of understanding, no. I think there is a building and growing understanding of how important this is and, having done the review, it has probably stalled a bit while attention was focused elsewhere. We are now back and accelerating, which is why you saw the result. The issue of commercial standards was not only recruitment, actually: the transparency policy was done, the open book standards were done, the commercial contract management principles were done, the commercial professional standards were done and, ultimately, the commercial standards were done. So quite a lot of guidance, standards and process have been used out of the centre in the intervening period, so it wasn't only recruitment.

Q29 Stephen Phillips: We come back to the progress that you want to make, which I fully understand—40% to 60% complete. We have looked at what completion looks like: compliance with the recommendations and everything else. The gold standards have now been published—forgive me, but that is my characterisation of them. When are we going to get to a place where all the work that needs to be done has been done and we have a civil service that is first rate at managing commercial contracts?

John Manzoni: I don't think I can tell you when that is going to be.

Stephen Phillips: Have a stab.

Q30 Chair: By the end of this Parliament?

John Manzoni: I would certainly hope so.

Q31 Chair: So, sooner than that?

John Manzoni: We will be doing all we can to accelerate ahead of that, but it is a big task. By the way, it will still mean that there will be quite a lot of high-profile contracts that are going wrong.

Q32 Stephen Phillips: That is not why we are here at the moment. We are here to see what the capability is.

John Manzoni: I agree with you, and the hiring of people and the management of their career paths is really the same answer. We have 70 fast streamers coming in, and they will be on the fast stream for four years and will have a career path thereafter. So by the end of four years, we ought to be having a group of those 70, plus the next 70 and the next 70 coming through the pipeline, which ought to be significantly strengthening. At the same time, we will bring it in at the top.

Q33 Stephen Phillips: It is slightly disappointing, Mr Manzoni, that we have a November 2014 Report from the PAC, and the Government essentially agree with it, that we need to improve contract management but there is a long way to go. A lot of work is done rather slowly, and now you are telling the Committee that, actually, we are not going to be where we want to be until the end of this Parliament in 2020, assuming that is when it is.

John Manzoni: I think it is healthy to be impatient, and I think we should be impatient. These systems are big systems to move, especially when you are talking about fundamental capability. I have conversations probably once a week with outside parties. It always comes back to, "How do we create a civil service which is more confident in the matter of the relationships with the private sector?" and that's about building our competence continuously inside.

Q34 Stephen Phillips: You refer to impatience. In a sense, it's always very easy for this Committee, and I can say this the day after the Super Bowl because we're always Monday morning quarterbacking, but I think we are impatient to see progress in this area and I hope that that message is one that is being received loud and clear, not just by the Cabinet Office but by all Government Departments.

John Manzoni: I am confident it is.

Q35 Stephen Phillips: Could I ask you a few specific questions on where Departments are at the moment? You get monthly information in the Cabinet Office in relation to this area from all 17 Government Departments, I think. Is that right?

John Manzoni: Yes, we do.

Q36 Stephen Phillips: The latest information, at least according to the submission from the Cabinet Office, is that three Departments don't have permanent commercial directors or equivalents at all at the moment. That's a matter of concern, isn't it?

John Manzoni: That was true in November. I don't know what the specifics are right now. In fact, one of them I do know, because I think it was one of them at the time—

Q37 Stephen Phillips: One of them was the Home Office.

John Manzoni: Which we now have, so that's one less.

Q38 Stephen Phillips: One fewer.

John Manzoni: So I don't know what the exact answer from that is now.

Q39 Stephen Phillips: Okay. Could you let us know what the current position is?

Six Departments, according to the return that you gave us, have to confirm whether their current resources and skills are aligned with the business's commercial requirements. Is that still the case?

John Manzoni: That, I think, has been superseded. This is to do with the general reorganisation of the commercial departments: more senior people; fewer junior people; what is the end state? That is, in fact, the blueprint, so to some degree that has now been superseded, that recommendation.

Q40 Stephen Phillips: Okay. Again, I think you need to write to us to update us on what the present position is.

John Manzoni: Sure.

Q41 Stephen Phillips: Nine commercial functions have not yet completed the development of a target maturity state.

John Manzoni: Same point.

Q42 Stephen Phillips: Six commercial functions have not yet established a formal change programme to deliver improved capability with progress reported to the Permanent Secretary or departmental board.

John Manzoni: You could go through all these; I don't have the exact update, partly because—

Q43 Stephen Phillips: If I can tell you, it's paragraph 8.2 of the submission that you addressed to the Committee.

John Manzoni: No, I am aware of what it was—

Q44 Stephen Phillips: So I think it would be very helpful if you were to update the Committee in writing as to what the present position is in relation to each of those.

John Manzoni: Sure.

Q45 Stephen Phillips: It's really to all three of you. Mr Sedwill, there is now someone who owns all your contracts within the Department. Is that right? You have got a commercial director now?

Mark Sedwill: Yes. We had one, as you said before, Mr Phillips. He left; we had a temporary; we now have a new permanent chief commercial officer.

Q46 Stephen Phillips: And Mr Heaton, you have one; you always had one, I think.

Richard Heaton: That's right.

Q47 David Mowat: I suppose the thought I had was to Mr Manzoni, really; perhaps it's to all three of you. When you were being pressed about, if you like, the tentacles of the central commercial group versus the Department, and the fact that four out of seven haven't even bothered to reply—or three out of seven haven't, one way or the other—you said that was to do with the relationship between the centre of Government and the rest of it. That struck me as being a really important point and the crux of all of this, because in a way you can set up this great capability in the centre under the Government commercial function and everybody can watch with interest while you produce your 14 manuals that came out last Thursday, but the issue is how you embed that in all the other Departments. And it just strikes me that, if four out of seven didn't bother filling out their self-assessment form, they may not be up for having it embedded, and you perhaps don't have quite the authority you need to make it happen. Is that true?

John Manzoni: Only one was issued last Thursday; the others were issued since.

Q48 David Mowat: Okay, but I'm making a wider point.

John Manzoni: I know you are, but I just want to correct a factual error.

Q49 Chair: Now we've got that on the record, perhaps you could answer the question.

John Manzoni: I actually believe that there is an increasing momentum behind an acceptance, across the Departments, that this is an important aspect, so I'm not actually sitting here worrying that, you know—it's always a judgment. As I say, the centre can quickly become shrill and you don't want to become shrill in the centre, because what are you going to do? Just going to get cross, bang your fists and nothing's going to happen, because the accountability sits elsewhere.

Q50 David Mowat: It depends a bit on what your authority is. You are right. If you haven't got authority, the risk is becoming shrill because, in the end, there is nothing you can do about it.

John Manzoni: The authority rests in the Departments.

Q51 David Mowat: So, given that, if a Department chooses to ignore your GCF or does not take it as seriously as you would like it to, there is little you can do.

John Manzoni: That's not true. I can influence the appraisal of the Permanent Secretary. I can ultimately move—

Caroline Flint: Does that mean not getting him a knighthood?

Q52 David Mowat: That's an important thing you just said. You can influence the appraisal of the Permanent Secretary. Similarly, can your head of GCF, Mr Hall, influence the appraisal of commercial people in the Ministry of Defence and the Home Office?

Mark Sedwill: For the record, yes he can. So, for example, in the 360° appraisal process I would ask my chief commercial officer and it would definitely involve the head of the Government Service and probably my chief operating officer for whom he works.

Richard Heaton: My take on it is yes. He can certainly influence the appraisal of the professional head. My take on it, having come from the centre into a large line Department is that it is not the shrill voice of the centre that makes me take contracts seriously. In the Ministry of Justice I have to take them seriously because we deliver £3 billion of business through contract because we were scarred by the monitoring fiasco a couple of years ago and everyone knows it is absolutely near the top of the stuff we have to get right. That ought to be the case in every Department. Where the centre can help me is by helping me recruit experts and people, by helping to put in place a framework that I do not have to invent myself, by

helping through the Crown reps, so if I am dealing with a big contractor which is also dealing with four other Departments, it can help me arbitrate that relationship. But I do not rely on the centre for momentum to get this stuff right.

Q53 David Mowat: Right. You mentioned Crown reps. Have you found them helpful?

Richard Heaton: Yes.

Q54 David Mowat: It seems to me to be a good thing that the civil service has put someone in charge of the whole relationship.

Mark Sedwill: I think that's absolutely right. It was an important innovation because the civil service is quite complex and federated and we all had our own relationships with some of the big contractors. Having Crown reps means we have someone who actually owns the relationship. Within the Home Office, I have tried to look at our commercial arrangements through those lenses as well so we have contract owners—senior business contract owners—but we also have people who own the relationship with the main supplier. We look at it through two lenses.

Q55 David Mowat: Okay. Maybe I could ask you first, Mr Sedwill, in your view is the Home Office becoming more commercial?

Mark Sedwill: Yes.

Q56 David Mowat: And is that being driven by these Cabinet Office initiatives, or is it being driven by you, or both?

Mark Sedwill: I think it is being driven by both, but largely by the requirement. We have had to bring in more commercial capability. As we have disaggregated some of the big procurements, we have had to bring in more system integration and commercial capability. We are managing more contracts and we are managing more relationships between suppliers directly rather than handing all that over to a big prime provider, for example. Circumstances have driven us in that direction and, of course, the whole austerity programme over the last period has forced us to try to drive and to continue to drive as many savings and value for money into our contracts as we can. It is a joint endeavour.

Q57 David Mowat: Okay. Mr Heaton, are you guys getting more commercial? I think Mr Manzoni's guess across Government was 40% to 60%.

Richard Heaton: First, I welcome the Cabinet Office's standard assessment thing. For the moment, we have our own, which we got from Tim Breedon's report. I was going through it earlier. It measures your capability on a maturity matrix, where one is chaotic and

five is optimised. At the time Tim Breedon did his review, we were scoring two, which is described as informal on almost everything. I think now we are on three, three and a half and four on each of the scores, so we are unquestionably making progress, but if you are still on a score of three out of five it is pretty uncomfortable. Absolutely game not over, as Mr Manzoni said.

Q58 David Mowat: All of us in the Committee and you are products of our own experience in different ways. I used to work in the private sector and sometimes people would talk about X being promoted and say that he is not commercial enough. If somebody said that about you, it was quite a serious thing; you probably could not get the next promotion. I wonder if that is the case in the civil service as well. Mr Manzoni, you talked about career specialists coming in and said that they could have a long career ahead of them on the commercial track. That is important and it is good, but it does not necessarily mean that the whole civil service is becoming more commercial in its outlook. I wonder whether you evaluate your people enough on that skill—perhaps the Home Office first.

Mark Sedwill: That is a really powerful point, and it goes to what we have focused on in the Home Office. We have focused a lot of our attention on building commercial capability outside the commercial specialist function itself in the businesses, so I could imagine myself making the remark you just made about someone being not commercial enough for, for example, someone running HMPO—the Passport Office—or UK Visas and Immigration. I would require the people at the top of those organisations to be not necessarily commercial specialists but commercially savvy, because they are running public service businesses and they are also running them depending on big third party suppliers. The same would be true in other functions. It would not necessarily be true in the Office for Security and Counter-Terrorism, for example, except for one or two jobs, but certainly for the big operations, I would expect exactly that kind of assessment to be made, and indeed it is.

Richard Heaton: Yes, similar. We are doing quite well on commercial specialists in the commercial function. There are two other tiers. There are people who know how to run contracts but are not in a commercial function, and there I think we have further to go—people in all sorts of business delivery areas who own contracts and need to have experience of running contracts. Then there is the general commercial awareness that policy people should have, for example. That is, in a sense, the hardest cultural nut for Whitehall to crack, and it goes hand in hand with a greater emphasis on numerical rather than literacy skills. The civil service needs to get better and sharper at numbers, balance sheets and margins.

Q59 David Mowat: I suppose in policy terms, the layman might say that the Rolls-Royce of the civil service is the policy and thinking through the big issues. The people who get accelerated promotion are the ones who can do all those types of thing, not necessarily the guy who makes sure Serco has done what it is supposed to have done. That is not valued enough, and probably you get the wrong people doing it and then you get a bust of some kind.

Richard Heaton: I would certainly feel uncomfortable if, on my senior team, there were not people who knew how companies like Serco and G4S behave. I would absolutely

expect that on my senior team. I hope that the Perm Secs, when we get together in two years' time, will have a greater diversity of experience around the table than we do now, and that is probably one area where we need to improve.

Chair: I see Mr Sedwill nodding—I will take that as agreement with Mr Heaton.

Sir Amyas Morse: Before we get too far from it, I want to ask about your comment, Mr Manzoni, on the need to avoid being shrill in the centre. Does that mean that if you have a central objective that does not get achieved, you just keep going until you get there, or do you think you should be pushing harder than that? I am not trying to put words in your mouth; I just want to know what you think. Is it just a matter of going as fast as can be done? What is your view on that?

John Manzoni: It is a judgment, depending on the issue. As you know, we are setting up a series of dimensions in the centre. Commercial is the most important of those dimensions, but there are others. Technical is another whole dimension of how we accelerate a technological transformation of the business across the Department. There are a number of these things that have to be progressed.

My own sense is that, provided momentum is building—if I felt we were stalling anywhere, we would have to have a different strategy for intervention. I don't think we are stalling. I think we are moving a large organisation from the state of where we were, which was essentially very few of any of these skills inside the civil service. That is why we have evolved to, certainly at the top of the civil service, largely policy skills and generalist skills. Do I think we are now accepting the need for these skills and creating momentum around bringing them in? I think it is all about bringing the skills in, because then the agenda will accelerate. If I felt it were stalling, there would be a need for a different sort of intervention, but I do not. Some are going faster than others and some are more frustrating than others, but I honestly think that we are building momentum in the right dimensions.

Q60 Stephen Phillips: Mr Sedwill, Mr Heaton, can I come to you? As I understand it, you have both got owners within the Department of the commercial side of things. Is that right?

Mark Sedwill: Yes—a chief commercial officer or a commercial director, if that is what you mean.

Q61 Stephen Phillips: Mr Heaton, I think you said you have someone who owns all the commercial contracts.

Richard Heaton: Each of the contracts is owned by a separate person. So the commercial head of function—

Q62 Stephen Phillips: Have you got someone who oversees the function?

Richard Heaton: I have got someone who oversees the function, yes.

Mark Sedwill: Same answer.

Q63 Stephen Phillips: Are those owners at director level in the civil service?

Mark Sedwill: Yes.

Q64 Stephen Phillips: Are there any issues with that? There is a question, possibly for the civil service, about whether that is a sufficiently senior level and whether they should be at director general level. What is your view on that? Mr Sedwill first, then Mr Heaton.

Mark Sedwill: I think it depends on proximity. I don't think power and authority rest entirely with grade. I think the civil service is far too gradist about that kind of thing.

Q65 Stephen Phillips: In part, it depends on the individuals you can recruit.

Mark Sedwill: It does.

Q66 Stephen Phillips: Which depends upon pay scale, Mr Sedwill.

Mark Sedwill: It does, absolutely. But, for example, my chief operating officer, for whom the chief commercial officer works, spends a great deal of his time on commercial work. He is directly involved in some of the big negotiations himself, and he certainly oversees them. He is my key lieutenant, as the Permanent Secretary, on running all of our commercial. He essentially enables corporate services functions. One could cut it in different ways. It is important to have somebody right at the top of the organisation with those skills, even if it isn't somebody full-time on the commercial function, as opposed to other components of it, such as digital or technology.

Q67 Stephen Phillips: I don't think you see a problem with it being at director level. Mr Heaton?

Richard Heaton: I can see it going either way, if I'm honest. The key thing for me is influence and leadership ability. We have just recruited a cracking commercial director at that level into the Courts Service, and it is no problem at all that they are not a DG. It is really important, in my case, that the DG whom the commercial director reports to—Ann Beasley, who was before the Committee the last time you looked at this—has this stuff as a large part of her job and knows quite a lot about it. If the director reported to someone who knew nothing about commercial and wasn't interested in it, I would have a real problem.

Q68 Stephen Phillips: You've sort of answered my next question, which is to both of you. How do these commercial directors report in? They presumably report to a director general who reports to or sits on the departmental board. Is that right?

Richard Heaton: Yes. In my case, they report into the finance and commercial director general. They are also a visible person around the Department. Everyone knows who the commercial director is, regardless of the fact that they are not—

Q69 Stephen Phillips: But they do not actually sit on the departmental board. Is that right?

Richard Heaton: Correct.

Q70 Stephen Phillips: Is it the same position in the Home Office?

Mark Sedwill: That's right, Mr Phillips, yes. The chief operating officer is there. The commercial director attends when we discuss those issues.

Q71 Stephen Phillips: Mr Manzoni, does that not send the wrong signals across a civil service that is being dragged kicking in that regard into the 21st century? You have got these commercial directors who are not sitting on the departmental boards.

John Manzoni: That question is on my mind, too. I am watching it to see whether we need to recommend that we need directors general. This is a common organisational problem, because if you are an HR person, you say, "I need my person on the board."

Q72 Stephen Phillips: I understand that. We are all agreed that this is really important to the way in which the Government delivers public services in the 21st century. It is conceivable that the Committee might say that this ought to be considered by the Cabinet Office and Government as a whole, but it sounds as though you are already considering that.

John Manzoni: I haven't made any formal recommendations. I'm just watching, for the moment.

Q73 Chair: Can I chip in on this? You are bringing people in from the outside—that is the phrase you used at the beginning, Mr Manzoni. People from the outside get paid an uplift of up to £30,000 over and above a civil servant going through the normal grades. Is that right?

John Manzoni: It varies, based on the level we bring them in. The most recent set of recruits have been on a different set of pay scales.

Q74 Chair: Just for our information, is that pay scale equivalent to a director general or nearer to a director general than the normal civil service grade?

Mark Sedwill: I think so. I can think of a couple of people I've brought in from the private sector to roles that are formally director level roles but are paid more, at least in headline terms, than some of my directors general. We essentially detach the salary scales when we look at big programme management or commercial skills.

Chair: The point is that these are well paid individuals who are being paid at the level of directors general. That is the point I was trying to get out.

Q75 Stephen Phillips: The position in relation to that, Mr Manzoni, is that probably some of them are being paid at DG level, but some of them might not. Is that right?

John Manzoni: The ones at director level generally—in fact, as I think I have mentioned before, we are in the final stages of proposals to change the pay structures for these particular skills, properly assessed and all of that. The ones at director level, I think, as Mr Sedwill has said, are about £30,000-odd above where they would be—

Q76 David Mowat: No, I do not think that takes the point away. I think your personal authority comes from who you report to, who you have meetings with and your position in the organisation, not how much you are paid.

John Manzoni: But I think this whole issue—as Mr Sedwill mentioned, we do have a hierarchy, and part of the culture change is that you bring your particular expertise to the table as opposed to having to be a particular grade to be at the table. We have got to adjust that over time.

Q77 David Mowat: Yes, but that means you have to be at the table and at the meeting.

John Manzoni: Completely.

Q78 Stephen Phillips: These commercial directors are not on the departmental boards, so, if they have concerns, how do they report to Ministers? How does it work in the Home Office, Mr Sedwill?

Mark Sedwill: Essentially through the line. If they were concerned about a contract, normally they would get involved in fixing that, but it would be through the chief operating officer, through me and then, depending on the scale of the issue, we would then report to Ministers: either the Secretary of State if it was important enough or the junior Minister or both.

Q79 Stephen Phillips: Mr Heaton, is it the same in Justice?

Richard Heaton: Yes, it is. If the Minister was concerned about a particular contract, I would expect them to turn to the person who owns the contract. Remember, the head of the

commercial function is this professional adviser, but a really good contract owner, who could well be at DG level, would be the person who is absolutely answerable to the Minister for the success of the contract. I would not want you to think that this specialism is confined to the commercial function and the rest of the Department gets on freely without knowing how these contracts work; that would be a recipe for disaster.

Q80 Stephen Phillips: The potential difficulty that I want to put to Mr Manzoni is that without these individuals on departmental boards, there is a risk, which the Committee sees manifesting itself again and again, that contracts go wrong in a way that is not immediately nipped in the bud and brought to the attention of Ministers and, as a result, it ends up costing a lot more to put them right. What is your reaction to that?

John Manzoni: My reaction is that it is all in the skill of the individuals and there is no point in having somebody without the skill and experience sitting on the board, because otherwise that will be no better. So it is a question of building the skill. At that point, when the contribution is sufficiently strategic, that person probably should sit on the board and have those dialogues.

As I said, some of these are particularly knotty, actually, and some of them are always going to go wrong because we have not priced the risk right, we have not got the policy quite right and we have not quite got the market capacity quite right. These are complex problems and I suspect that we will always see some of them going wrong, but on your fundamental point that says “We have got to build capability and then we have got to get that seat at the table”, both of those, by the way, are embodied in the commercial standards that I talked about at the beginning.

Mark Sedwill: May I just add a point briefly? I think the point Richard Heaton has made is important. The people I really hold directly accountable for the delivery of effective contract is the senior business contract owner, because that is the person in the business who is responsible for the delivery of the business, to which the contract is a contributor. What I am trying to do is ensure that the authority and accountability rests with the person who is responsible for delivering the outcomes rather than—

Q81 Stephen Phillips: But presumably for the most part—not necessarily in every case—those people are reporting to the commercial director.

Mark Sedwill: No, those people are reporting in a line. For example, immigration removal centres reports to the director general for immigration enforcement and the senior business contract owner for Airwave reports to the director general who is in charge of policing and fire. So it works directly up the line, because you want the business—

Q82 David Mowat: You are absolutely right that it does work up the line; you and Mr Heaton have both made that point and I agree with it. By way of observation, it also means that you have created a double matrix organisation in a way, because the first matrix is

to the contract manager in the Department—right?—because the accountability is up the line but you’ve got a contract manager, or contract director or whatever, off to the side. That is the first matrix and the second matrix is then from the Department contract manager to the group that’s been set up in the Cabinet Office. I just make that observation; it’s just a point.

John Manzoni: But both are relatively seamless, actually. Information is flowing.

Q83 David Mowat: All right, because there is a trick to make that work.

John Manzoni: Yes.

Q84 Stephen Phillips: Mr Heaton, could I turn to a slightly different issue? I think you said that £3 billion-worth of contracts is now being delivered by the Ministry of Justice in this way—that was one of your earlier answers—to, as it were, the commercial side. *[Interruption.]* It doesn’t matter what the number is; it’s a significant proportion. Obviously some of those contracts—indeed, quite a lot, probably—are contracts that are there to assist vulnerable individuals. I’m thinking particularly in this context, for example, of those at the Medway Secure Training Centre, which we learnt about last month. In the “Panorama” programme that we saw, the suggestion was that young people at Medway were mistreated and that staff were pressured into telling lies in order to avoid fines to G4S. My first question to you is: what’s the current status of your inquiries in relation to that contract?

Richard Heaton: First, the “Panorama” programme was very serious and what went on was totally unacceptable. Our first response had to be, and was, about the safety of the children in the care of that centre. So, Kent police and Medway Council’s child protection team launched an investigation into it. That was the first thing to do, and we took steps to make sure that the children were safe.

Then the Secretary of State set up an improvement board, which is tasked with improving the oversight, scrutiny and challenge of monitoring arrangements in the centre. I should explain that the monitoring arrangements are run by the Youth Justice Board, which is an arm’s length body of the MOJ, but clearly the Secretary of State is in overall responsibility, so we put in an improvement board, and we are watching the situation very, very closely. We’re doing more than watching it; we’re working hard with the contractor, G4S.

G4S has substituted the director, so there’s now a new director running the centre, and, as I say, we are working closely with the contractor, Kent police, Medway Safeguarding and the improvement board to make sure that these problems are eliminated.

Q85 Stephen Phillips: We’ll come back to G4S in a moment. However, on the more general point, with public services being delivered through contractors such as G4S to vulnerable individuals, including these children, do you think your contracts do enough to ensure that contractors provide services to vulnerable individuals in the way in which it is intended they should do?

Richard Heaton: In the light of what we saw at Medway, that must be an open question, both as to the data and sources of information available through the contract, and in terms of the monitoring arrangements that we have in place. So that remains an open question. I'm not complacent about—

Q86 Stephen Phillips: Has this lesson been learned, Mr Heaton? Is the MOJ going to ensure that where a contract is a contract for the delivery of public services to vulnerable individuals there is an appropriate mechanism by which the Department can monitor and ensure that those services are being delivered in the way that it is intended they should be delivered?

Richard Heaton: Yes, absolutely. So an aspect of really good contract management function is continuous improvement. If we come across something that surprised us by being worse than we thought it was, then something has gone wrong, either in the provision of services or in our ability to hold the service provider to account. So, yes is the short answer to your question.

Q87 Stephen Phillips: Why were you surprised in this case? Why were you unaware of the position at Medway? Why didn't your own systems bring it to light? Why did we have to rely on whistleblowers and journalists to bring this into the public eye?

Richard Heaton: That is a very troubling question. That is what I'm asking. That is what the improvement board is absolutely looking into. Why did these things not come through via the ordinary contract management and data standards that we have?

Joshua Reddaway: You have a contract manager on site?

Richard Heaton: Two on site.

Joshua Reddaway: I just thought it would be useful to clarify exactly what the contract management arrangements are in Medway.

Richard Heaton: We weren't complacent, but it is a highly regulated sector. These places are monitored by our own people on site, by local authority scrutiny through Ofsted, by Her Majesty's inspectorate of prisons and by the Care Quality Commission. So it is not an unregulated sector, but it is clear that there is something going on that we did not spot and should have done.

Joshua Reddaway: This captures quite a lot of the conversation about the difference between the operational skills and the contract management skills. Do you look at the people who are actually on site as contract managers who are commercially skilled and understand what is going on? Are they actually experts in youth work who are going around trying to make sure that children are safe or are they both, and how do you manage that?

Richard Heaton: Two members of staff will be actively engaged in activity with the children and with staff, reviewing practice, weekly incident reporting and use of force incidents, so I think probably both.

Q88 Chair: Probably both? That doesn't sound like a ringing endorsement of the contract management.

Richard Heaton: I have not spoken to these individuals, but as I understand it—I will write to you if I have got this wrong—their job is certainly to make sure that the thing is run successfully, but also to check that the standards that we would expect are being adhered to, and that incidents that they see or hear about, for example, are reported and recorded, that the incident log is kept up to date and so on. So they would be our first line of defence if something is not going well.

Chair: Okay. It would be helpful if you could clarify anything in writing, because we do need to make sure we nail that down.

Q89 Stephen Phillips: Obviously, some of your largest contracts at the moment are Transforming Rehabilitation contracts. I think you have referred to a review as a result of Medway and indeed across your contracts of the lessons learned, of why your systems did not pick up what was going on. When will that review report, and what changes can we expect to see imposed on your other contractors as a result of whatever emerges from the investigation?

Richard Heaton: I am not sure when the improvement board will make their final conclusions and recommendations.

Q90 Stephen Phillips: Well, give me an estimate.

Richard Heaton: Weeks rather than months, but I will get back to you on that, if I may. There may be a read-across. It is a very different business looking after vulnerable children—

Q91 Stephen Phillips: It is still vulnerable individuals.

Richard Heaton: Absolutely. So there may be read-across, or there may not be.

Q92 Stephen Phillips: And there is public protection involved in Transforming Rehabilitation, as well.

Richard Heaton: Indeed there is, but it is not in a residential setting. So it is a different business, but if there is read-across—

Q93 Stephen Phillips: But the point I am putting to you is that your systems did not pick up that something was going very, very badly wrong with how the contract was supposed to be delivering services. If there is a problem with your systems on one contract, it is conceivable that there might be problems in another contract as well.

Richard Heaton: You are absolutely right; there might be. I would hope that our community rehabilitation company contracts are state of the art and best in class. It is a brand new model, whereas the YTC is an older model. It has an integrated contract management team with contract management specialists, data specialists and analytical support, and it involves people on the ground as well as in the centre, so I would hope that the read-across would not carry over to the CTC contracts, but you never know. I cannot rule it out.

Q94Stephen Phillips: In due course, we will probably ask you whether there were any lessons to be learned. G4S, of course, has a history with your Department, Mr Heaton, in the sense that there is currently a Serious Fraud Office investigation in relation to the tagging contracts for which they overcharged you. That is right, isn't it?

Richard Heaton: Yes, that's right.

Q95Stephen Phillips: You probably cannot say very much about that, but maybe I will come to you, Mr Sedwill. You also have a number of contracts being performed by G4S—is that right?

Mark Sedwill: That's right.

Q96Stephen Phillips: What is your experience of G4S? Are they so large and delivering so many Government contracts that they are essentially unaccountable, because they are delivering so many public services on behalf of Government?

Mark Sedwill: I don't think so, Mr Phillips. I think they found they had a real wake-up call with the Ministry of Justice problems with tagging that you just referred to, and they have had others in the past. Subsequent chief executives have been held accountable in Parliament for that, of course. For us, they are essentially providing two things: immigration removal centres and COMPASS asylum accommodation. Those contracts were both competed, and there were other bidders.

Q97Stephen Phillips: Let's come to the asylum accommodation in Middlesbrough, where you are aware that vulnerable asylum seekers have been targeted, allegedly because they have been living in houses with red doors. You say G4S is a company that is pretty good at learning lessons. On 5 February 2014—nearly two years ago—it came out for the first time in public that asylum seekers were living in these houses with red doors. The Public Accounts Committee, during the course of its questioning, identified living behind those red doors as marking out asylum seekers and as a safety hazard. Stephen Small, then the managing director of G4S, said, "I cannot comment on the doors being painted red, but I will take that point away."

Chair: I should just say, for the record, that Mr Phillips is referring to question 49 of the transcript of that hearing.

Q98 Stephen Phillips: Here we are, 16 months later. You have supposedly taken this away. One might have expected something to change. It didn't change. We did not know it had not changed. As a result, attacks have taken place on homes in which vulnerable asylum seekers were living in Middlesbrough. Your systems did not pick that up, did they, Mr Sedwill?

Mark Sedwill: Mr Phillips, first we have done an audit on that. The Minister will be publishing that audit later in the week—I think he has a debate on it—so I will need to leave some of the details to that. To go to your point, some of the reports in the press stories do not tally entirely with the reports we have had from talking to Cleveland police or people on the ground.

Q99 Stephen Phillips: I do not want to interrupt, Mr Sedwill, but I think you are answering a different question, which I quite understand. Let's leave to the Minister the substantive facts of the case in due course. I am asking you why, the issue having been raised in this Committee and G4S having said, "We'll deal with it," two years ago, your systems did not pick up that it had not been dealt with, as a result of which these vulnerable asylum seekers were targeted.

Mark Sedwill: It is not clear that they were, as a result of that; that is the point I was trying to clarify. In terms of the doors, about half the homes in Middlesbrough had been inspected last year by the housing inspectors. They were found to be up to the standard. Concerns about the red doors were not raised during that process. I acknowledge they were raised in the Committee, but they were not raised through that process. We have not had reports there of harassment or antisocial behaviour linked to it. The basic point however—we have acted on this—is that we do not want asylum seekers visibly identified.

The point about commercial arrangements—we discussed this at the last hearing—is that it is not wise for us to have ever more detailed performance indicators about the colour of doors or other things. We want three things from them. We want them to keep people safe. We want them to accommodate people in decent accommodation for the price we have agreed, and we want them to disperse quickly. It is clear that the first one—keeping people safe and making them feel safe—is at issue here.

We have been clear with all of the suppliers that there must be no visible identification of asylum seekers, whether it is through the décor or anything else. It is worth noting that it is not completely outlandish for bulk providers of accommodation to decorate homes in the same way. The issue arises if, as you suggested Mr Phillips, that is used then to target the asylum seekers, and that was not apparent.

Q100 Stephen Phillips: The issue on which I am trying to concentrate is whether or not there is an appropriate audit function of your commercial contracts within the Home Office. You told us in your submission that the Home Office's internal audit team reviews contracts during their operational phase. We were told by the Home Office that there was a rolling programme of contract reviews, with two further contracts audited in 2015-16, but we were also told that there is £5 billion-worth of contracts—56 business-critical contracts. It is

apparent that there are very large sums of public money being spent where the contracts in question are not being audited by your Department.

Mark Sedwill: I am sorry; I am slightly confused by the numbers you have given me.

Q101 Stephen Phillips: They are the numbers that you set out in your submissions.

Mark Sedwill: Our contracts are audited by—

Q102 Chair: Internal audit.

Mark Sedwill: Internal audit—by our own internal audit, and of course some of them are subject to external scrutiny as well. Sorry. I am slightly misunderstanding the question.

Chair: Joshua Reddaway can try to enlighten us when he has found the numbers.

Q103 Stephen Phillips: I will let Joshua look for that. Are you saying that all of the 56 business-critical contracts are audited on an annual basis for compliance by the contractors by the Home Office?

Mark Sedwill: I do not think they are audited on an annual basis. They are audited. We have joint contingency plans—risk registers—with them. They have their own scrutiny. That number you quoted is, I think, over the lifetime of the contract. I will have to get back to you on the frequency of the audit. Internal audit will generally follow a rhythm—a little like the NAO—that is determined by the risk that is perceived, the maturity of the contract and so on. It would not be every contract every year; they would audit contracts according to a programme that they would essentially set, which they determine by risk.

Q104 Stephen Phillips: The difficulty with this is that I do not have the information to be able to ask you questions on this.

Chair: Joshua Reddaway, can you enlighten us?

Joshua Reddaway: I am only going with what is in your submission. Paragraph 17.2 on page 6 reads: “a rolling programme of contract reviews is carried out – 2 further contracts have been audited in 2015/16. The team also look at contracts in the course of other audit work, eg where they are auditing projects and programmes there is often a contract element”.

Mark Sedwill: Again, my internal audit present a programme to me of audits they do each year. That is a wide range of things, not just commercial arrangements. They produce that programme by determining where the risk is greatest and what they need to audit. They would not audit every contract every year. We would not have that capacity.

Q105 Stephen Phillips: Which I understand. Do you think you are auditing a sufficient number of contracts to ensure that public services are delivered effectively and that things do not go wrong?

Mark Sedwill: COMPASS is only about 4.5% of our total commercial expenditure.

Stephen Phillips: It is £5 billion of public money, Mr Sedwill.

Mark Sedwill: No, not COMPASS though, the total. That is over the lifetime of the contracts. We spend about £2.8 billion a year.

Q106 Stephen Phillips: I am sorry but I think that most of my constituents would think that £2.8 billion is still a lot of money.

Mark Sedwill: It is a lot of money, but that is with a range of different kinds of contract. Some are mature. They all have rigorous internal audit arrangements and they all meet the contract management standards. Internal audit is essentially an additional line of scrutiny, beyond the internal contract management scrutiny that is carried out by the line operations themselves.

Q107 Stephen Phillips: I read your submissions as indicating that two internal audit reviews had been conducted for more than 50 critical contracts. If that is not right you had better write to us.

Mark Sedwill: I will clarify it.

Stephen Phillips: And give us the relevant data in relation to the paragraph of the Report to which the National Audit Office has just referred.

Mark Sedwill: Sure. The point I am trying to make, Mr Phillips, is that internal audit is not our only quality assurance function. Most of the quality assurance function lies within the operations and within the contract management itself. Internal audit is a second tier. That is the point I was trying to make.

Q108 Mr Jackson: I just want to knock down a few straw men over this Middlesbrough issue, because I do not think it is right to predicate the performance of contract management on tittle-tattle that may or may not have appeared on the front page of *The Times*.

As I understand it, Erimus Housing, in 2004, offered tenants the opportunity to choose the colour of their door, and a significant number—this is 12 years ago—chose red. In the interim, they transferred some properties over to Jomast, which was letting the properties on behalf of G4S. So it is important to put into the public realm the facts of red door-gate, if I may say so.

Chair: Okay—

Mr Jackson: Hold on a minute.

Chair: Ask the question.

Mr Jackson: I am getting to the question, thank you Chair. Can I specifically confirm that you stated that there were no definitive, provable cases of intimidation or violence against asylum seekers?

Mark Sedwill: Not that I am aware of, linked to that issue, Mr Jackson. Again, I think that that will come out of the audit that is published, but I understand your point to be correct. As you suggested, lots of providers of bulk housing paint the houses in the same way. I lived in an MOD house myself once. It was exactly the same as every other house—the furniture, the décor and so on was the same. The issue is not that, as you suggested. The issue is whether that attracts attention and makes people become stigmatised and vulnerable.

It is a very ethnically mixed area, and the issue is how the contractors ensure that they keep people safe. The doors is part of that—they need to adjust the doors—but it is a more general duty. The asylum seekers have within the houses—G4S have reissued this guidance—hotlines to call if they feel intimidated. Of course they can report to the police. There are refugee organisations that can bring the police on board if they think people are being subject to intimidation or antisocial behaviour, let alone a criminal attack.

Q109 Mr Jackson: I want to clarify that. As you say, this Committee—including me—sometimes gives you a hard time, but it is important that if we are going to give you a hard time it is on the basis of facts and failings and where you have said you are going to do something and you haven't, for instance, rather than a media storm.

Setting aside Medway, which is a separate and very serious issue that might result in criminal sanction, on this occasion we cannot necessarily say that the contract management failed on the basis of unproven allegations.

Stephen Phillips: So that we are clear, Mr Sedwill, the point that I put to you—which I think you understood even if others didn't—was that the Committee had identified something as a risk and G4S had said they would do something about it, but your systems had not picked up the fact that they hadn't done anything. I did not make any point based on the truth or otherwise of the allegations.

Q110 Chair: I am not sure whether or not it clarifies anything, but we highlighted question 49, which my former colleague on the Committee, Ian Swales, asked in the hearing to which we referred earlier. That question was about the red doors. Stephen Small, the G4S witness, said: "I cannot comment on the doors being painted red, but I will take that point away." That is what Mr Phillips quoted.

At the Home Affairs Committee hearing on 26 January this year, the Jomast representative, Stuart Monk, was asked by the Chair: "What you are saying is, because they were aware of it, if they were concerned, they should have said to you, as the owner of the company, 'This is not on. You should not have doors painted red, identifying asylum seekers,

because this would be despicable to do so’?” Mr Monk said: “Exactly”, and at question 13 the Chair said: “But they never said this to you?”, and Mr Monk said: “That is right.” The Chair then said in question 14: “Nobody said it to you?”, and Mr Monk from Jomast said: “No. Nobody said it to us.” So, we have one representative of G4S saying that they will take the comment away, and the person who is actually supplying the housing saying that nobody knew about it.

The point is not about whether or not the doors were red; as you have rightly highlighted, it is about whether people felt safe. The point is not about whether this was a failure of the contract, but when contracts are managed—this is true for all Departments—sometimes, by managing the minutiae you can miss the most obvious thing that is staring you in the face. That is what we are trying to drive at. In your management of this contract, in all the various inspections, did people miss this bleedingly obvious thing—that people were being very clearly identified, as Mr Swales highlighted in this Committee a couple of years ago?

Mark Sedwill: Ms Hillier, my point is that we are testing the contractors on whether or not we are getting reports from the asylum seekers who are being accommodated saying that they feel vulnerable, are at threat, are being abused or feel stigmatised. That is the test, not conversations about doors and so on in Committees or elsewhere. We had inspected these houses. The asylum seekers are seen as part of that inspection, and those allegations were not made as part of that process.

Q111 Chair: It is quite difficult for an asylum seeker to complain.

Mark Sedwill: I’m sorry, Ms Hillier, but I don’t think it is. They do have the ability. A hotline is provided to them. There are many very capable refugee organisations that monitor their accommodation quite carefully and look after them, and, when accommodation is being inspected, they have the opportunity to raise any concerns that they have. That is the data on which we need to rely.

Q112 Caroline Flint: Who is at the end of the hotline?

Mark Sedwill: They are provided by the suppliers themselves, so in this case it would be G4S.

Q113 Caroline Flint: Without getting back into the doors issue, my question is also linked to Medway. Lots of services are contracted, and at the end of the day it is people who are on the receiving end of those services. Do you feel it is important that there is a route back to those who actually issued the contract—yourselves as Departments and the people who oversee your contracts—for people to raise concerns and complain, whether that is families acting on behalf of children and young people or, for that matter, asylum seekers? We could be talking about anything else here. Beyond actually going to the people providing the service, how can the customers, if you like, get back to whoever issued the contract? How are you looking to improve that?

Mark Sedwill: That is an area about which you will hear some more later in the week.

Chair: You are building your Minister up here—it's getting exciting.

Q114 Caroline Flint: Do you accept that it is important? Because if they go to the organisation and they get stonewalled, lots of MPs have to deal with casework, whereas—

Mark Sedwill: I agree. I accept the point.

Caroline Flint: Whereas at the last resort they have really tried with lots of organisations, in both the public and private sectors, and they just get fobbed off with, “Computer says no”, or no one listens. You are issuing these contracts, but in what ways with something like the red doors can you improve the relationship between those people who provide the service and the person who pays the money?

Mark Sedwill: It will depend on the nature of the contract. If we look at asylum seekers, for example, we have a series of relationships with several very experienced refugee organisations which take an interest in asylum seekers, so third sector and charities and so on—

Q115 Caroline Flint: Here is a very practical question. A family is housed in one of these properties, or there are some children in Medway. What are they provided with by the Department to say, for example, “The contractor for this service is G4 whoever. Their job is to do this, this and this. If you aren't satisfied, your first port of call is to go to the organisation, but beyond that we are here, as the people paying for the contract, to hear your concerns”? Now, you have to have a sifting through that, I understand—that works through everything, in health and everywhere else—but does the actual person, the individuals or the families if children are involved, rather than some NGO, have that sort of information so that they can act if they feel that they are not getting what is required?

Mark Sedwill: I will have to come back to you on the specifics, but my understanding is that they are provided with, essentially, an induction pack as they go to accommodation, which sets out for them what their expectations should be and what their rights of redress are. All the accommodation is inspected monthly. Now, that is by the contractors themselves—

Q116 Chair: Is that multilingual information?

Mark Sedwill: Again, I believe so, Madam Chair, but I will have to check. I believe it is.

All the homes are inspected monthly and as people rotate through them, so there is the opportunity both for a more formal process and just through seeing inspectors.

Q117 Caroline Flint: You do not know whether in that pack there is something back to yourselves.

Mark Sedwill: I do not know—

Q118 Caroline Flint: Mr Heaton, what about the families of children in Medway? Do they—

Mark Sedwill: I will have to come back to you, but my expectation is that the companies themselves will provide a decent standard and will have means of ensuring—

Chair: But we are talking about when it does not work.

Mark Sedwill: But they have means themselves of ensuring that they have that feedback loop. That is part of what—

Q119 Chair: Mr Sedwill, you should come and sit in one of our surgeries—you would be very welcome—and see that half the things go wrong, I am afraid, in every Department. Richard Heaton, do you want to answer the question?

Richard Heaton: Yes. First of all I should say that the improvement board will report by the end of March. One of the things that I will be watching out for will be if they say that our, as it were, ordinary escalation routes did not work—therefore it had to come externally, via whistleblower—because that would ring alarm bells.

What is supposed to happen in these children's centres, or young people's centres, is that there are two avenues. One is the monitor, who is employed by the Youth Justice Board for the Secretary of State. That person is on site, so it is a direct route to us. The second is that Barnardo's is engaged not just as any NGO but as a service provider who is available physically and on the telephone to children in the centre. It ought to be the case that incidents can be reported and come to our attention very quickly. If it turns out that that was broken, I am extremely concerned and will have to act on it, but that is how it ought to work.

Q120 David Mowat: Back to the slightly more mundane question of open book contracts, which we have talked about in previous PACs. From the centre first, Mr Manzoni, I think the Cabinet Office undertook to publish guidance on this by early 2016. Is this part of your 14 volumes, or the one volume that has been done so far that you talked about earlier?

John Manzoni: It is. I am not sure of its exact status—somebody will tell me—but as far as I know, it is in its final stages; it has probably been cleared. So we have guidance, which talks about the appropriate conditions in which to use open book contracting, how to segment a contract and how to analyse the business opportunity and such things, so that it can be applied in a proper way.

Q121 David Mowat: Right. So there will be a standard. Okay. You have the answer now.

John Manzoni: Late February.

Chair: It is a very efficient service, I have to say—the unsung heroes behind you.

Q122 David Mowat: So your view, your position, is that open book contracts will save the Government money?

John Manzoni: If applied right, yes. They are not applicable in all cases, by any means.

Q123 David Mowat: I think the two Departments—maybe the Ministry of Justice first of all: I think your submission to us said that broadly nearly all contracts would be open book in future, while, I think, the Home Office was a little more measured in its language. Is there a reason for that difference?

Mark Sedwill: I think, actually, we were just trying to reflect what we understood to be the guidance coming from the Cabinet Office, which is not going to be binary; it is essentially going to suggest that this is the right approach to take, where we are confident it will save money. That is going to be in big and complex contracts, very largely, but there are some smaller ones and some simple ones that are just rotating through, where you would increase the price by adding an open book element to it, but broadly speaking, yes, you would expect our big contracts to be open book.

Q124 David Mowat: I know, on the face of it, it always sounds great, because you know everything about the contractor, but on the other hand it is almost the opposite of a fixed price contract, isn't it? You are more or less bought in to an amount of margin and therefore potentially—unless there are other contractual issues—if something goes wrong and they overrun, or whatever, or there is a change order, or whatever it is, that margin is maintained. It does strike me that it is something you have to be quite careful about.

John Manzoni: It is a nuanced approach. First of all it depends on dimensions such as the level of competition available in the market, because if it is a highly competitive market you could probably rely on the market to be the most effective judge of that. How much incentive do you want to put in the contract? How much fixed price? How much innovation do you want? All of these things relate to how you choose to contract a particular service. It also, of course, requires a relatively sophisticated understanding of how the contractor, for instance, is allocating overhead to a particular contract. So it is not a panacea by any means, and it requires a sophistication on both sides, in order that it has the right outcome. So that is why it has taken a little while to figure out. It is not “Oh, open book will be the answer to all questions,” by any means.

Q125 David Mowat: Would you expect a contractor—I don't know, Serco or G4S—that is working across Government in many Departments to have the same margin all the time, or would that be something that they could negotiate at different times?

John Manzoni: Absolutely not. It depends on how much risk—this whole issue of where we choose to put risk and how we price that risk is first of all dynamic; secondly, it is a very complicated set of things. So to the extent that a contractor or a supplier is providing services that are very similar across Government, then I would expect that we would both understand the level of risk they were taking, and that we would apply the same margin, but to the extent that they are providing different services into Government then the risk-sharing and the reward for that risk is a complex question and one that we need to understand properly.

Chair: I just want to bring in Joshua Reddaway from the National Audit Office.

Joshua Reddaway: I just want to comment on open book and whether or not that means you have to have a fixed margin, and so on. I think historically lots of people have understood open book to mean costs plus contracting, which is exactly what you are talking about, where you have all the costs and then you have a fixed margin. One of the things that we have found in our conversation with Government is that that is what people understand it to mean. However, where we have found it to be really effective and useful has been where there has been a fixed-price contract, and the Government wants to get underneath that and understand what is going on.

This started, really, with the PFI contracts, which are very fixed price; but every time they change they have to be altered, and actually having open book has allowed those changes to be done effectively. So we are calling for open book in our Report. We did a Report in July last year, on this. I just want to be very clear that we think that it should be applied to fixed-price contracts, and we are very sceptical that cost-plus contracts should be widely adopted across Government. They are only really used where risk—

Q126 Chair: Mr Manzoni, do you want to comment on that?

John Manzoni: I think if we do cost plus, then we should have open book, and we should understand the costs. I think the NAO's point is that we should be increasingly moving towards output specification and an incentivised structure towards a given output, and payment by results, if you like, rather than just simply a cost plus, because that does put the risk on the contractor—and that is an appropriate thing to do in most cases; but there are some cases where, if we are trying to do a new service, for instance, it is not obvious that we, the contractor or the market will understand how to price that risk. I think it is perfectly appropriate at some point to revisit that and say, "Actually, we have got that one wrong." There may well be instances. Because we are doing, generally, very complicated things in the market.

Q127 David Mowat: Just to finish on this, there is agreement that transparency and open book is a direction you are going in. It is not a panacea, and you in the centre are putting out standards that will determine and help Departments to use it effectively.

John Manzoni: This is guidance, not standards, but I think it is the same thing. Correct.

Richard Heaton: Some sectors are more enthusiastic about open book than others. I don't suppose it is terribly easy to get open book out of global IT companies.

Chair: I didn't catch that last sentence.

Richard Heaton: A global IT company won't rush to produce an open book contract.

David Mowat: That depends on the competitive environment and how busy they are.

Q128 Chair: On the subject of open books, Mr Heaton, the Ministry of Justice has claimed that all your contracts are now open book. Is that true?

Richard Heaton: No, most of them. We wouldn't go for open book for a contract to supply ballpoint pens. As I say, there will be some contracts where the sector is unwilling to go into an open book arrangement, but we would go for an open book arrangement wherever we can.

Q129 Stephen Phillips: I think we were confused, or at least I was. I am afraid that it's my fault for feeding the Chair that question. I think you said in your response to this Committee that all of your contracts going forward were going to be open book.

Richard Heaton: I meant to say nearly all, but if I said all—

Q130 Chair: We have got the point clarified, which is helpful. When we had Tony Meggs in front of us—I think it was only last week, but it seems like a long time ago—Mr Phillips asked him which are the three projects that kept him awake at night or worried him the most, and he talked about the Courts Service reform and transformation project, which is in your Department. Does that worry you?

Richard Heaton: Yes, it does, because it is one of my Secretary of State's two big priorities and it is a very, very big and ambitious project that requires estates reconfiguration and digital transformation. Everyone in the organisation will be going to a new job. Call centres will replace hearing centres, and lots of stuff will be done online. It is a huge, complicated project, so it worries me.

Q131 Chair: Is that the one that keeps you awake the most? Pretty much everything in the Ministry of Justice is a project.

Richard Heaton: Okay, I would put that in first place. Several things keep me awake, but that is one of them.

Q132 Chair: What are the next two on your list?

Richard Heaton: The two big ones would be our two big reform projects. Those are the ones where I ought to be spending my energy.

Q133 Chair: Courts and prisons?

Richard Heaton: Courts and prisons are the two big reform programmes. The courts programme, in a sense, is more visibly worrying because it is slightly more mature than the prisons one, which has not yet been programme-ised. I know more about the courts one in detail, and it keeps me awake more, but there are plenty of contracts that trouble me.

Q134 Chair: I think I can remember that feeling. Mr Sedwill, what are your top two or three big worries? What are the things that keep you awake at night?

Mark Sedwill: Actually, it would not be contracts in the Home Office. It is more some of the threats that we face.

Q135 Chair: I am asking about contracts. Which are the three contracts that keep you awake? I get your point.

Mark Sedwill: The portfolio around the border systems, because of the complexity of that and the number of different stakeholders—two dozen agencies are operating at the border. If we are really to deliver the benefits of that, it is a complex one to manage. We have looked at that quite recently. The other big ones, I suppose, are some of the ones we have touched on already as we deal with pressures on the asylum system, and so on, and as we come to rotating those contracts. Those are complex. I think we have good capability to deal with them, but the pressures that they are dealing with are pretty big.

Q136 Chair: I have to say that we do not worry that you stay awake at night worrying about these things. We would like to know that you are worrying about taxpayers' money. It is quite an important aspect of your job that you care enough.

Richard Heaton: Just a quick proviso: the courts reform programme will involve contracts, but it is above all a programme. There is an element of contract management that is not to do with managing the contract but designing it right in the first place. That causes quite a lot of concern, and there are things on my desk about which I worry whether we have the contractual framework right and whether we are designing the right solution for a particular problem. That is not really contract management. It is more contract design. It is the left-hand side of the—

Q137 Chair: The procurement side.

Richard Heaton: It is pre-procurement, actually. It is about working out what the market can bear—

Q138 Chair: I have to say, Mr Heaton, that your lack of sleep is a vindication of what Mr Manzoni was saying about early planning when he was at the Major Projects Authority.

Mr Manzoni, you have been very—dare I say it?—loyal to the team of Departments with which you are working, but do you sometimes get a bit frustrated when you are trying to build this strong capacity that the responsibility and co-ordination is ultimately down to Departments? You are trying to co-ordinate it, but it is ultimately Departments that do it. Do you think they are playing fair with you and giving you the support that you need to run this decentralised model effectively?

John Manzoni: In general, yes. There are always days or particular instances when we have conversations and I take a different view. In general, as I said in answer to an earlier question, I actually think that momentum is building on this issue. Do I think it is as fast as I might like? No, but I do think that momentum is building.

Q139 Chair: We had a strong centralising Minister. I know we do not discuss policy in this Committee, but one person in the Cabinet Office for five years is almost a record in government, and very clearly pushing this agenda. Have things slowed down?

John Manzoni: Actually, no, I think the momentum is continuing to build. I think that—I have said this to the Committee before—what went in the first phase was entirely appropriate for the first phase. In some senses, it shocked the system in a number of ways. It stopped contracts being extended, which would have been the default option. But it was predominantly stopping bad things happening as opposed to enabling good things to happen. I think we have to move now to the enablement of good things to happen.

Q140 Chair: On the issue of differential pay, you have people coming in from the outside, as you describe it, Mr Manzoni—another of your bingo words—paid at a higher level. Then you have civil servants who have gone through the civil service career, some of whom may have very similar skills. Perhaps I can ask the two delivery Departments whether there is any tension between the career civil servants and the people from the outside who are doing similar or equivalent jobs, but at different pay rates.

Richard Heaton: It is happening in very small numbers at the moment, so it is not huge. There is a bit of it, but most people work really hard to get the job done and they do not let this stuff trouble them. There are too many things that trouble them. So it is on the margins of people's minds, but it is not a big issue for me at the moment.

Mark Sedwill: I agree. The only point I would add is that I have detected no friction between individuals. There is inevitably a sense of, "What about me, too?", but that is aimed more at the system than the individuals.

Q141 Chair: Mr Manzoni, when you have got your 70 fast-streamers coming through—your 30 apprenticeships, your various appointments to the commercial, the MPLA,

skills building—would you see a future where there will be the same pay scale for everybody back to how it used to be?

John Manzoni: Actually, I see a future where we have to attract the right skills across the civil service from the market, and where those skills carry a market rate, we can beat our head against the wall and not get them, or we can pay. By the way, even with those people that we have brought in, and they are only brought in at the top, the fast-streamers are on the same as all the other fast-streamers.

Q142 Chair: Eventually the fast-streamers will be at the top is my point.

John Manzoni: Ultimately they will, but in order to get on to the new system—the differential system—they have to go through an assessment centre to be accredited in a fully comprehensive way in order to have the choice to go, “No, I’ll go on to this slightly new system.” There are trade-offs: there is less pension, there is less security in their job and there are various aspects that offset slightly more money. But I do see that, across the civil service, we are going to have to create groups of specialist skills. By the way, the craft of government and making policy is one such skill, but so is commercial, so is project and so is technology. I believe we are going to have to think of our civil service workforce more in those terms in future.

Q143 Chair: I think you have made that point to us before and I think we would generally agree that a strong commercial function is important, but it will not be able to act alone. It has got to be part of the whole, and that includes tackling some of the cultural issues that we tried to tease out a bit today. In particular, we talked before about promotion prospects for civil servants and having that commercial skill. I think Mr Heaton made the point that he hoped that the Permanent Secretary table would be more of a mixed skillset in future, if I have—

Richard Heaton: Diverse in every way.

Q144 Chair: You took the words out of my mouth, Mr Heaton. I am glad that there is agreement on that. We are frustrated—I sense a bit of frustration from you as well, Mr Manzoni—that the pace is slower than we would all like and that too many Departments are falling behind. The fact that some self-assessments are not being done suggests a lack of priority for some of those Departments. I think we would all agree that accountability of contractors is important. That came out in the issues of Red Door and Medway. They are spending taxpayers’ money and this Committee has made it very clear over the years that, when a private contractor is spending taxpayers’ money and delivering a public service, they should be held to account. I know in the Treasury minute you slightly disagreed with us about that, but we are prepared to have them in front of us again if delivery is not good. We hope that will lead to better contract performance over time. They take that responsibility as well as Departments. That is not to absolve Departments.

John Manzoni: We only disagreed with the legal point of being accountable to Parliament. They cannot be because, as directors of a company, they are legally bound to be accountable to the company in the round—not even to the shareholders. They cannot legally be held accountable anywhere else.

Q145 Chair: No, but if we summon them they have to come or they will get chucked into a little cell beneath the Victoria Tower.

John Manzoni: I don't suppose they enjoy coming before this Committee.

Chair: Just to remind them, if they are tuning in: we see this as work in progress but we will keep coming back to it. Hopefully you have all recorded this, but we asked for a list of the Departments that have not completed self-assessments. I think we wanted that from you, Manzoni. We also want the details of the 14 gold standards for commercial management or pointers to where we can find them; information about the frequency of audit at the Home Office from you, Mr Sedwill; the role of the contract managers at Medway from you, Mr Heaton; and information from both the service departments on how users can escalate a complaint if there is an issue. Mr Heaton, you gave a pretty full answer on the latter. Perhaps you could look through that and see whether you wish to add anything.

Thank you very much for coming along. *[Interruption.]* I am being fed my normal lines by my acting vice Chair. The transcript will be on the website in the next couple of days. If you have any corrections please let us know. The report will be published at some point after the half-term recess.