House of Commons

International Development Committee

Oral evidence: DFID's use of contractors, HC 920

Monday 20 February 2017

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Watch the meeting

Members present: Stephen Twigg (Chair); Fiona Bruce; Mr Nigel Evans; Pauline Latham; Jeremy Lefroy; Wendy Morton; Paul Scully.

Questions 46 - 142

Witnesses

I: Joy Hutcheon, Director General, Finance and Corporate Performance, Department for International Development; Nick Ford, Head of Procurement and Commercial Department, Department for International Development.

Examination of witnesses

Witnesses: Joy Hutcheon and Nick Ford.

Q46 **Chair:** Good afternoon and welcome to this session. This is our final oral evidence session as part of our inquiry into DFID's use of contractors. I welcome our two witnesses from DFID, Joy Hutcheon and Nick Ford. We have an hour and a half for the session. We are aiming to cover 15 questions in that hour and a half, so I will try to ensure that the pace of the question and answer fits so that we can get through all 15 questions. I will kick off with an opener. Please, when you answer a question, introduce yourself as part of that answer. Can you talk us through how DFID makes its decisions about which programmes will be delivered through private contractors?

***Joy Hutcheon*:** I am Joy Hutcheon; I am the director general for finance and corporate performance at DFID. The decision about which delivery route to take comes after Ministers have decided what our overarching priorities are. They set our overarching objectives, many of which are in the manifesto or have been committed to in other public statements. Once they have set what we are going to do, business teams will then start thinking about how we are going to do it. That is done through a business case, which is prepared for each intervention. The business case has five sections. It has a strategic case, which is: why are we doing this particular intervention? It has an appraisal case or option: what are the different ways of doing this? It has a financial case: does this have an economic return? It has a management case, and a commercial case, which is: what is the best way of getting the preferred option to market and delivering it?

The appraisal case will look at different ways of delivering, and then the commercial case will look at how to procure the preferred option for delivering. There will be a commercial adviser involved in that whole business case, but who specifically will oversee the preparation of the commercial case. All programmes over £40 million will go to the quality assurance unit, and then a separate commercial adviser, as part of that process, will look at the business case and test the commercial case. All programmes over £5 million will go to Ministers.

Quite often, and increasingly often, at some point during or after this process, there will be an early market engagement exercise, where the procurement team will pull together a range of NGOs, multilaterals and private sector suppliers, to engage early on the intervention and talk about the different ways that it may be procured.

Q47 **Chair:** You will know that ICAI in its report in 2015 raised concerns about the way in which business cases are used. It said they do not "offer a robust appraisal of options". What is your view on that?

***Joy Hutcheon*:** The quality assurance unit produces an annual report, which rates the quality of the different cases in the business case. We would like to see a strengthening of the appraisal case. We think sometimes teams rush a bit to the option. We would also like to see some of the effort that goes into rehearsing the strategic case moved to the back of the business case, with more fleshed-out commercial cases. That said, we have seen quite a lot of progress on that. We saw progress in the last quality assurance unit annual report, and we are about to get the next one. It is a robust process, but there are improvements we can make to it.

Q48 **Chair:** Have you made improvements as a result of that ICAI report?

***Joy Hutcheon*:** It was a criticism we recognised and we are continuing to address it.

Q49 **Chair:** How far has DFID's reliance on contractors increased as we have seen the number of DFID staff reduce, despite the spend going up?

***Joy Hutcheon*:** Not very significantly. The proportion of total spend through private sector contractors, as you know, is 13% at the moment. It has increased slightly over the last spending review period as budget support has gone down, but only by a couple of percentage points. Spend both through contractors and through NGOs has increased slightly, but not dramatically.

Q50 **Chair:** To ask a slightly different question based on the same piece of information, is there in practice more of a challenge in managing contracts when you have a similar percentage, as you say, but of a much bigger spend going through contractors, yet fewer staff to manage those contracts?

***Joy Hutcheon*:** As we scale up to 0.7%, as you know, we had quite a significant uplift in our staffing. It was not absolutely in scale to the uplift in our spending, so we have had to get more efficient. We have had to think hard about the size of our interventions. We have had to think hard about the number of our interventions in each country. That has been challenging, but our judgment at the moment is that we are not stretched beyond what is manageable.

Q51 **Pauline Latham:** Could you describe any practical ways that contractors bring their insights and their learning from the programmes back into DFID?

***Joy Hutcheon*:** I will let Nick come in because he is our practical person on this, but we now have a set of ways in which we engage with contractors before they implement programmes and as they implement programmes. We have a set of events in country. Most country officers will now get their contractors together once a quarter to talk about the challenges they are facing in implementation and specifically about fraud issues that they may be encountering in country, so that they can share lessons. Then we have a series of fora and events, where suppliers can meet together, sometimes in the UK and sometimes overseas, to share learning. Nick can say more about that.

Nick Ford: Good afternoon, Committee. I am Nick Ford. I am head of procurement and commercial at the Department for International Development. You raise a very interesting question about learning. It is pretty crucial that we learn from experience. Every industry needs to learn from experience, but, particularly in development and particularly when we are such a commissioning organisation, we must ensure we learn what works but, just as importantly, what does not work, to ensure we are designing programmes to what works and not what does not, particularly within our quite decentralised organisation with different country offices. I also recognise in the ICAI review in 2013 it said we could learn more from contractors and, fundamentally, the people delivering at the front line who are not DFID staff, not necessarily just private sector but NGOs and multilaterals. It is important that we learn from the people who are delivering the programmes for DFID.

We have done that in a number of ways. Joy mentioned early market engagement before. We do a pre-business case as well as quite often a pre-contracting phase, if we are running a procurement, where we get a mixture of organisations together—that could include NGOs, multilaterals and suppliers—to seek feedback on the terms of reference or the programme design in quite an early phase, to understand what will and will not work on the ground and let them inform the programme design and the business case. That is what we do on a programme-by-programme basis. In fact, since June 2016 we have run 42 early market engagement events; 32 of those have been in country. We run them in the UK, but, for any that have a country-level delivery, we will run an event in country as well for local supplies.

The second, different area is that we do specific forums and specific events. We have, as the Committee is probably aware, an annual supplier conference, which, while it has "supplier" in the title, this year was our biggest to date, with 200 organisations, including multilaterals, NGOs, civil society organisations and private sector suppliers, as well as a number of suppliers that are not currently delivering to DFID, to try to broaden our markets. While those annual conferences are our headline events, where we have numerous different workshops throughout the day to seek feedback and experience, we also run throughout the year a number of more specific and targeted forums. Suppliers, contractors and NGOs will attend our professional conferences and events. In a recent one I remember, we got about 11 suppliers to our programme management conference and ran a specific workshop for programme managers.

Additionally, through our supplier relationship management programme with some of our key suppliers, we seek feedback, learning and case studies, as well as having what we call brown bag lunches, where we will have suppliers and organisations come to DFID to present topics and learning. We also run similar events through Bond, to ensure we are covering multilateral organisations, NGOs and civil society as well as just suppliers.

Lastly, I will give an example of something I went on recently. I supported the head of procurement in UNOPS, which is running an interesting pilot programme in Jordan, targeting small and women-owned businesses, to understand the barriers and try to help those businesses do business. I went and supported that activity, even though it is not a DFID-funded event, and went out to Jordan with UNOPs. I found it really insightful, and it made me think about how we could use our commercial advisers more in country to do similar events. In fact, we are looking at a potential one in Ethiopia with the head of office. That is another way in which we take learning on board.

Q52 **Pauline Latham:** You have all this information that is fed back to you. Can you tell us how it then goes into subsequent programme designs?

***Nick Ford*:** If you take an early market engagement event, a programme could have multiple market engagement events. Starting pre-bid, when a programme is only around 50% to 60% designed—very roughly, you will appreciate—we will get the market together, including a mixture of delivery channels, so multilaterals and NGOs. They will inform the design. We will potentially update that programme design. It may go through the business case process. We will then probably run a second early market engagement event, particularly if we are going through a procurement process. If we decide the best delivery route for that programme is a procurement and contracting route, we will run a follow-on early market engagement and get suppliers together again, to inform and update the programme design and the terms of reference for that programme. We will change the design and the terms of reference in line with the feedback we have received from the market and from suppliers.

That will be on a specific programme. We also, particularly through the heads of profession conferences, look at how we can feed that into future programme designs through papers.

***Joy Hutcheon*:** More broadly, Nick is the professional head of a network of commercial advisers who work with the business. Some specialise in countries and some specialise in sectors, and they will gather up the more broadly applicable lessons and make sure that they are fed through into similar procurements in the same sector or countries that are procuring a similar kind of programme.

Q53 **Pauline Latham:** If you have all these different types of organisations coming forward to give you feedback, is it always in the best interests of those who are making a profit from your contracts to share the information openly, or do they hide it?

***Joy Hutcheon*:** I would be interested in Nick's views on this. One of the things we are seeking to move further on through the supplier review, which the Secretary of State has announced, is ensuring that all our suppliers are incentivised to meet our statement of priorities and expectations. We are absolutely clear in our code of conduct, through the statement of priorities, that we expect suppliers to share learning with us and to allow us to feed that into other programmes. We insist that all the data out of programmes is owned by us and available.

Q54 **Pauline Latham:** You are incentivising them. What is the incentive, then? What do you do to persuade them?

***Nick Ford*:** I can give a couple of examples of how we do that. If you take an early market engagement event, it is actually quite interesting, because in the room you could have the incumbent organisation, which might be a private sector supplier, and lots of other suppliers and NGOs that want to bid for that work and potentially take it off the incumbent. Therefore, you would think the incumbent is going to keep quiet and not give too much away. That is quite typical at the start. As we run through a two-hour early market engagement event, the incumbent will be—

Q55 **Pauline Latham:** That is when the programme is starting. I am talking about when you have had all this feedback about what they have done and how it has worked, at the end of the process. Why would they tell you this? What is the incentive? You said you are incentivising them. What are you doing?

***Joy Hutcheon*:** It is a very good question. One thing that comes out of events in country is that suppliers know they need to learn from other suppliers, to be able to implement programmes successfully. When we get a set of suppliers together talking about fraud, for example, you might think that they are going to be incentivised not to talk about the fraud they have experienced, the thing that they have found and stopped or the loophole they have closed, but that is not our experience. We have suppliers working in such difficult and challenging environments that they get very quickly into sharing experience with other suppliers, so that they can all be successful.

Q56 **Chair:** Is that uniform? Do all the big suppliers behave in the same way?

***Joy Hutcheon*:** I would be interested to hear from Nick whether he feels that some suppliers are holding back. You might want to talk to us about annual reviews, but for every programme there is a process where we capture what we have understood to be the learning and the learning we have discussed with suppliers through annual reviews. It would be visible if suppliers were holding back, but we saw lessons learned from the implementing team in country through that process.

Q57 **Pauline Latham:** You still have not told me what the incentive is. You said you incentivise them. What is the incentive that you incentivise them with?

Nick Ford: Part of the incentive in the field we operate in is that it is for the greater good, to improve development. Most, although not all, of the organisations we deal with are in development because they are trying to deliver impact on the ground and change people's lives. The incentive there is to do that better. If I take the supplier conference, we typically have a number of suppliers presenting case studies of both when it has worked well and when it has not gone very well. You might think a supplier would not be keen to stand up and talk about something that has not gone very well that they have learned from or done better, but they are willing to do that. They support that. I do not struggle to get suppliers to present at supplier conference on areas that have gone well and areas that have gone badly, including all our big-name ones, as well as NGOs and civil society organisations. There is a general ethos in the sector that people want to share learning, although I do not dispute that they are not all the same.

Q58 **Pauline Latham:** You do not actually incentivise them at all.

Joy Hutcheon: One of the things that we are addressing through the supplier review is how to specifically incentivise suppliers to meet our statement of priorities and expectations.

Q59 **Pauline Latham:** We have just been told we do not have to worry and that they all do it, because they want to improve things.

Joy Hutcheon: There is a whole set of things in the statement of priorities and expectations, and we want to make sure that all our suppliers are meeting all of them. Coming out of this supplier review, we want to be in a position where, if we find a supplier that is very clearly not complying with the statement of priorities and expectations, we can take action.

Pauline Latham: Like what?

Joy Hutcheon: I am not going to prejudge where we will come out of that review. In this case, if we found a supplier withholding information, that would be very clear. Making a judgment about whether the supplier is being quite as enthusiastic as you would like them to be is a bit more difficult in terms of active sanctions.

Q60 **Wendy Morton:** I am still struggling with this point about incentivising, so I just want to follow on from what Pauline has said. You have talked about priorities and expectations, and linking them into this. I want to be absolutely clear. When you are talking about incentivising these organisations, bearing in mind that they are commercial organisations, is there an indication of a financial incentive or, if they behave, do they have more chance of getting a future contract? It is the use of the word "incentivising", because, when you come from a commercial background or many other backgrounds, it suggests that there is some sort of a two-way exchange. I just want to be absolutely clear what this term "incentivise" means.

Joy Hutcheon: It was not a term that we used.

Q61 **Chair:** I thought you did use it. That is what Pauline was picking up on you using. That was what was quite striking in your answer.

Joy Hutcheon: I apologise. In that case, I have spoken rather loosely. Incentives can be from concrete to not concrete, as you articulated. As I have said, through the supplier review, we want to understand what the consequences could be for suppliers that do not comply with our statement of priorities and expectations. There is absolutely no intention to incentivise suppliers in a concrete way, in terms of doing business. I apologise if I had given that impression.

Chair: We will move on to the next question now, but we will return to the supplier review in a bit more detail with some questions later on.

Q62 **Paul Scully:** DFID is spending more money in fragile states. I was just wondering what the effect is likely to be on contractors.

Joy Hutcheon: It is tough for contractors working in fragile states, and we understand that. We generally have a smaller market in fragile states. There are security and duty of care implications, and the access for monitoring is restricted. Often, as you know, fragile environments are also very corrupt environments. We know that there is a significant set of challenges. We use all the routes and processes that we would normally use to support suppliers, but we intensify them and we focus on the particular issues to do with fragile states. We run events and workshops of the kind Nick has talked about here. We also give suppliers a lot of support to get them engaging with each other in country, so that they can share their lesson-learning.

Q63 **Paul Scully:** The Stabilisation Unit talks about the fact that, for a number of interventions, "profit motives of implementing partners can at times be in tension with other objectives". How would you manage that process and that tension?

Joy Hutcheon: I am sorry; could you give me the quote again?

Paul Scully: The Stabilisation Unit talks about the fact that, in outsourcing conflict, justice, security and stabilisation interventions, the profit motives of those partners can sometimes be in tension with your objectives. How would you manage the tension of those?

Nick Ford: Specifically on fragile and conflict states, but it is similar in all the work we do, DFID's context is extremely challenging. The work that we do is extremely complicated and the environments we operate in, as the Committee well and truly knows, are very challenging. Operating in some of those zones, particularly conflict zones, can be extremely difficult. Sourcing suppliers willing to work in some of the most dangerous places, while trying to ensure that we get the best value for the UK taxpayer and maintain competitiveness, is very challenging. There is a balance between risk and delivery. At certain times, we have to accept that maybe only one supplier is willing to work in a specific conflict. That is becoming rarer; even in Syria now, we have managed to increase that to a few bidding for work, as opposed to being strung to one supplier. Sometimes we have to pay a higher rate. Again, it is rare, but sometimes we have to accept that, where it is a specialist skill for a short period of work in a very difficult environment. That is balanced against how to deliver the programme. We should be proud that we are still delivering those programmes in those regions.

I am sure the Committee will want to come on to the procurement process in more detail. We are using public procurement processes around open and fair competition and transparency. We have implemented full transparency within our procurement process, so we see fees all the way through, profit, overhead margins. We can benchmark and review that across different countries and sectors, so we can look at whether an FCAS region is having more of an impact on price, cost, overhead and profit than a non-FCAS area.

We have done well recently in Pakistan, where since 2012 we have increased the number from five active suppliers managing big programmes to around 10 bidding for the work. We are doing a significant amount of market engagement and warm-up, including with local suppliers. Mozambique is quite interesting, because we typically used to get only one or two suppliers. It is difficult, because of the language, as well as the difficulty in doing business. The Committee is aware that I have put senior commercial roles on to the front line. We have put a commercial adviser in Mozambique, to engage the local market and do lots of warm-up of the local suppliers that will deliver the programme on the ground, which means a lot of the big primes can see there are organisations that can deliver these programmes. Now we are typically getting seven bids in Mozambique, which is a significant change.

Q64 **Paul Scully:** Do you envisage an increased use of contractors, specifically because of the increased spend in fragile states?

***Nick Ford*:** As Joy mentioned before, we look at the delivery, through the delivery appraisal. My commercial people work with the programme team to understand the best way to deliver this programme, with the best value for money and the maximum development impact. We do that on a case-by-case or programme-by-programme basis. It is not necessarily right to say that, because we work in FCAS, we are going to do more through contractors. It would depend on the nature of the programme.

In some regions, it is fair to say, because of the duty of care aspects and the difficulties, we see a certain number of contractors bidding actively in the more dangerous places where other organisations, multilaterals and NGOs may not be willing to operate. I would not necessarily say it will lead to an increase, but we will see how it goes in due course.

Q65 **Paul Scully:** You have mentioned value for money for the taxpayer. How do you specifically ensure value for money? When you say contractors take on the increased risk that DFID would not be able to take directly, how would you manage those additional costs?

Nick Ford: If we go down a procurement or contracted route, as opposed to a multilateral or NGO route, it is around cost, transparency and competition. It may be worth me talking about the regulatory framework in which we operate. We obviously follow public procurement regulations, which are all about open and fair competition and trying to create more competitive markets, using market forces. Running an open and fair competition for procurement is one way to do that. Other ways are around the fee transparency that I have spoken about and seeing the full cost, and generating and stimulating more markets so we have greater competition.

We have fairly recently implemented a new procurement procedure, which came into place in 2015, called competition with negotiation. Previous to that, it was very difficult to negotiate contracts under public procurement regulations. Chair, my team took you through that when you were recently in East Kilbride. We have been quite successful in delivering that. We will negotiate with a set number of suppliers to drive cost and reduce the cost to the public.

Q66 **Paul Scully:** Is it those direct interventions that have increased the number of suppliers that are bidding, whereas previously, you said, there might have been only one?

Nick Ford: Yes. There are a number of ways in which we have increased numbers. There is a lot of market engagement. I know I mention market engagement a lot, but it has led to a significant increase in the numbers bidding, as well as the interest. We are deliberating targeting, supporting and working with markets to increase bidding not just at the prime level, but also at the second-tier and subcontractor level.

There are even simple things. I am not very good at social media, but we have introduced a Twitter account and we tweet all our procurements now. My department has its own Twitter account. It is a quick and easy way of broadcasting a competition that we may be running, in addition to all the various forums that we run. We use frameworks to publish a pipeline, so suppliers can better prepare for upcoming opportunities. There are a number of ways in which we have tried to increase competition.

There is still more to do; it is still nowhere near where I want it to be. You do not necessarily need numbers for a competitive process. Obviously, if you are buying an aeroplane, there is only Boeing or Airbus but there is very hard competition. You do not necessarily need a number, but a number would be preferable.

Q67 **Jeremy Lefroy:** Following up on that, you spoke about the restrictions on DFID because of duty of care, but in effect we are asking contractors and their staff to work in places where DFID is not able to work. Is that not abdicating responsibility for those people who work in that particular area?

Joy Hutcheon: There are a number of areas where it is not possible for DFID staff to travel within HMG security guidelines, and you will know that our security is managed by the Foreign Office on a cross-HMG basis. Nobody can force any of our suppliers to travel to or take on work in particular areas. They will make their own assessment of the risk to themselves, which may be different because they are not members of HMG; they do not have to behave in the ways that HMG behave; and there are not necessarily the same consequences of different events.

Q68 **Chair:** That was very cryptic.

Joy Hutcheon: If a member of HMG gets kidnapped, it is a very serious event and the whole international diplomatic community swings into action. If a contractor gets kidnapped, it is a very, very serious event and lots of things swing into action, but it is for the contractor to make its own judgment about how it is going to manage that.

Q69 **Jeremy Lefroy:** Would this not underline the proposal that we have constantly made through this Committee that DFID should set up an arms-length contractor, through which it could operate, where the employees were not part of HMG and therefore were able to go into these areas as contractors but directly linked to DFID?

Joy Hutcheon: That remains a very interesting proposition, Mr Lefroy.

Chair: That is a very civil service answer, if you do not mind me saying.

Joy Hutcheon: In a world where we were able to have a discussion with Treasury about the implications of that for our running costs, that would be a very interesting proposition. I know you have discussed that with the Permanent Secretary on a number of occasions but that, at this stage, is not the world we are in.

I could see you, Chair, looking uncomfortable when I was talking earlier. Contractors will often choose to use and employ local staff to work remotely and, again, they will make their own judgment of the levels of risk for local staff.

Q70 **Jeremy Lefroy:** Do you ever challenge it and say, "Hang on a minute; we are basically offloading the risk. We are not prepared to do it ourselves. We are asking other people to do it. Actually, should we be challenging those contractors"? I notice from the notes that seven members of staff of contractors we use have been killed. I do not know if it was when they were working on a DFID-funded project or not in the last period of time. Do we challenge them and say, "Hang on a minute; we have our very strict processes. We are employing you because your processes are less strict; are they indeed far too lenient?" Do you ever ask that question?

***Joy Hutcheon*:** We absolutely ask that question. It is our responsibility. When we are contracting, we assess—

Q71 **Jeremy Lefroy:** When you say your responsibility, how do you mean?

***Joy Hutcheon*:** We make an assessment of the contractor's ability to discharge its duty of care obligations.

Jeremy Lefroy: You do.

***Joy Hutcheon*:** Yes, we do.

Jeremy Lefroy: It would be very helpful to have an example of that in one particular case.

Q72 **Chair:** Can you write to us with an example, because we are very behind with the questions?

***Joy Hutcheon*:** The other thing I would say is that contracting is an exercise in transferring risk. That is what we are doing. We do not implement programmes anywhere. It is not just that we implement them ourselves in safe places and get other people to do it in less safe places. We are not equipped, in terms of staff members, to be a delivery organisation; we are a commissioning organisation, so we commission across the whole range.

Q73 **Fiona Bruce:** Contractors have complained about a lack of clear rules and guidance in how framework agreements are operating. Are you aware of any problems?

***Nick Ford*:** Frameworks are one tool in our procurement specialist tool-bag to discharge and run procurements under the regulations. DFID has put in place a number of frameworks since 2011-12, when we did our first wave of frameworks. We are now on to our second wave. We have taken on board quite a lot of learning from the first wave in the new set that we are running. Frameworks fundamentally have a prequalified set of suppliers. You would put in place a framework where you have typical, regular, repeated programmes of similar types, of a similar scale and size across the organisation, so you can clearly see a reasonable pipeline of work that suppliers can bid against. We go through a competitive process to get on to the framework, and then potentially run a further competition to award a contract. Under the framework, there are choices and different routes that we have.

When we are setting up a framework, we do quite a lot of market engagement. In our current framework, we do a lot of surveys. We do a six-monthly survey to all consortium members on the framework; that is not just tier-one, but everyone in a sub-tier on the framework. On a 12-monthly basis, we do face-to-face meetings with the suppliers on a framework, so we are taking on board a lot feedback about what has worked well and what has not. That is why I started by saying, from our first wave of frameworks, we have learned a lot for the second phase and improved them. In much earlier days, we got feedback around framework, the way we had constructed consortiums and the ability for sub-tier members within consortiums to move about or not move about, but we have corrected many of those in these new frameworks. I am hoping that the market finds them, as they should be, much more effective.

We also have what is called a Google platform, a way of messaging to all organisations on the framework, again not just to tier-one but to every single person in that framework, and we use that as a way to communicate upcoming activities and things we are thinking about doing in future frameworks, and feedback on that has been really positive.

Q74 **Fiona Bruce:** Can I ask you about opportunities for smaller organisations to bid? We have heard in evidence that the complexity of the framework agreements can make this very difficult, and of course associated with that is a high cost of bidding. Do you have any proposals to adapt framework agreements so that smaller organisations can bid?

***Nick Ford*:** Absolutely. That, again, is a key area in which we have learned. It is worth recognising that 33% of our procurement spend, which is only around 13% of DFID's operating budget, so pretty small but nevertheless important, goes to small and medium-sized enterprises. We are the second highest government department for SME procurement spend. The frameworks are a good opportunity to increase SME involvement. On our five current live frameworks, SMEs on the frameworks are at about 60%, which is higher than they would typically be. An example of where we have really changed it and learned is the wealth creation framework, which is one that we did have feedback on. It was probably at the higher end of spend going through a framework of individual procurements. Normally, for a call-off on a framework, you are looking at small pieces of work, on average between £1 million and £2 million, but on the previous wealth creation framework it was a bit higher than that. We were finding that, even though there were about 24 suppliers on the framework, the top 10 were picking up most of the work and it was not necessarily getting well distributed.

We have corrected that on the new framework that we are running. We have constructed two specific lotting processes and we have lotted the framework. Apologies; that is a technical procurement term that basically means breaking it down into different elements, one of which would be more for suppliers, and we will run mini-competitions against that for work over £5 million. For work less than £5 million, we are doing a direct call-down, where we do what is called a round robin around the organisations that are on the framework, which basically means every organisation on the framework will therefore receive business under the framework.

Q75 **Fiona Bruce:** Just to clarify, what do you define as an SME?

***Nick Ford*:** We use the Cabinet Office definition, which is fewer than 250 employees.

Q76 **Fiona Bruce:** Or what turnover?

***Nick Ford*:** Let me just check on the turnover; I cannot remember off the top of my head.

Q77 **Chair:** Is Adam Smith International an SME?

***Nick Ford*:** It is classed as an SME under the Cabinet Office definition.

Chair: Wow.

Q78 **Jeremy Lefroy:** Very quickly on that point, an SME in a service sector where the gross profit is pretty much the same as the turnover, because you are dealing with staff, is a very different proposition from an SME in the manufacturing sector, and yet the Cabinet Office guidelines are exactly the same for a contractor and for a motor manufacturer, where you are talking about chalk and cheese, really. Is that taken into account in your definitions?

***Joy Hutcheon*:** We are bound to use the Cabinet Office definition, because we are required to report in our spend with SMEs to be aggregated across the whole of Government.

Q79 **Chair:** You do see it is rather misleading when the term SME is used. Most people probably would not think an organisation like Adam Smith International would qualify as an SME, just to pluck a random example off the top of my head.

Q80 **Fiona Bruce:** Do you keep any records of organisations with a lower turnover than the €50 million figure? What percentage would, say, have turnover of under €5 million or even €2 million, where there might be just a few individuals involved but they have very specialised knowledge that is critical. Do you keep a record of that?

***Nick Ford*:** Our current system capability unfortunately does not distinguish between SME and a small or micro-supplier as three separate categories. Do you want me to clarify the category that we use or shall we provide that to Committee afterwards?

Q81 **Chair:** It is useful for the rest of our session today, please.

***Nick Ford*:** Let me do that first, and then I will answer more of your questions. We use lower than 250 headcount, a turnover of €50 million or a balance sheet total of €43 million as the definition. A micro-supplier, at the other end of the spectrum, is fewer than 10 employees and €2 million turnover. We have used ASI, and its number would still be reasonable for an SME. If you took that out of our SME equation, we would be at around a quarter, or 25%, which is still well placed compared to other government departments. Note that most other government departments include what they call indirect SME spend, which is where it is going to a large organisation but then being spent with smaller ones in the supply chain. We do not count that in our overarching figures.

Q82 **Fiona Bruce:** These would be the lead contractors that have won the bid.

***Nick Ford*:** Yes.

Q83 **Fiona Bruce:** Are you aware of any problems where a small organisation has not been the lead contractor; it has been a subcontractor, but obviously its know-how has been important, even critical, to the winning of that bid, and it later on finds that it is not given the work it expected to be given by the lead contractor? Have you looked into this issue, which has been drawn to our attention?

***Nick Ford*:** If I can just talk about our expectations of the behaviours and ethics within our supply base, we have been very clear with suppliers and all organisations we deal with that we expect a good professional working relationship, as well as the ethics and behaviours, including how they treat their subcontractors. Our statement of priorities and expectations is very clear around the fair treatment of subcontractors, and we certainly do not condone exclusivity agreements.

Q84 **Fiona Bruce:** Are you aware of this having happened and, if so, what action have you taken?

***Nick Ford*:** We have focused over the last 12 to 18 months on being very clear about our expectations, and communicating them as well as setting them up. We have been very successful in that regard, in our statement of priorities and expectations and our various supply conferences. One of the hard lessons we have learned in recent times is that we have done less on compliance and ensuring that we drive compliance. We have relied a little bit on self-declaration, so we ask our suppliers. We asked all our top suppliers last year to send us feedback from subcontractors. We asked them to provide us with surveys they had done on their subcontractors, to see how they were being treated and to seek feedback from the second tier. It is fair to say we have been relying on self-declaration, and one of the areas that we will focus on through the supplier review is driving harder on compliance.

Q85 **Fiona Bruce:** Can I ask my question again: are you aware of this having happened and what action have you taken?

***Nick Ford*:** We are aware of suppliers raising that, so they have raised that directly with me at some of the SME forums that we run. We also run specific micro and small forums, and we have heard that feedback. We have asked them to give us more detail so we can take it forward with contractors. A lot of them will not specifically tell us which programme or which tier-one supplier caused it, which makes it difficult. I am aware of a couple, and we have specifically raised with those organisations, through the key supplier management programme, that that must not continue.

***Joy Hutcheon*:** It is worth adding that, if a contractor wins a bid on the basis of particular knowledge or expertise down the supply chain, and, when it comes to it, that knowledge or expertise is not available, or the CV that it has offered is not available, then we are quite ready to move on to the next contractor. There are examples of where we have done that.

Q86 **Chair:** Has that ever happened?

***Joy Hutcheon*:** Yes.

Q87 **Chair:** Can you send us details of when that has happened.

***Nick Ford*:** We recently did that in Sierra Leone. The supplier's bid team, which had been proposed in the bid, was not available when we came to sign the contract. We gave the supplier a chance to correct it; it did not, so we moved to the second-place bidder.

Fiona Bruce: That knowledge or expertise might not be available, but it might be that it has already been captured by the lead bidder, and that is very concerning, is it not? We are trying to probe whether you do something to protect these really small organisations, which have often put a lot, speaking relative to their turnover and capacity, into contributing to a bid. What do you do to protect them and ensure that they are given a fair opportunity to earn the money that they have contributed to winning? Perhaps you could write to us, because I am conscious of time.

Chair: If you can write to us on that, it would be fantastic.

Q88 **Mr Nigel Evans:** I am a bit concerned about asking contractors to get subcontractors to report to them, in order to tell you what is going on, because many of the subcontractors will rely on the contractor for future business and will feel constrained. Do you see that there is an issue there? We have had a couple of whistle-blowers in front of us and they were quite upfront about some of the issues that subcontractors were facing. Do you have some process in place so that whistle-blowers can directly contact you? I am not saying that everything that they will ever tell you is the truth either, because there are two sides of any story. Is there an ability for subcontractors to go directly to you, so they will not be punished or penalised but can at least expose some of the shortcomings of the contractors?

***Nick Ford*:** I agree with the concern. That is one of the reasons why we introduced the breakfast sessions with small and micro suppliers, which no medium-sized suppliers are allowed to come to. They are purely focused on the very small and micro suppliers, and we are running them quarterly, so they can come and provide us feedback. We also have an email account on our website, where they can send us feedback and opinions, and we have followed through with phoning the organisations about that.

Q89 **Mr Nigel Evans:** You understand the dominant relationship that a contractor will have.

***Nick Ford*:** I do understand the dominant relationship.

Q90 **Mr Nigel Evans:** Will the whistle-blowers therefore be protected?

Otherwise they could be putting themselves out of business, quite frankly.

Joy Hutcheon: This is absolutely an issue that we should capture and make sure we address in the supplier review, because we are looking at how to increase small suppliers and local suppliers, particularly down the supply chain. Let us take that away.

Q91 **Wendy Morton:** Just briefly, before I come to my question, I wanted to go back on this business about the SMEs. We know that DFID is managing a large budget and that some of the contractors are very big organisations. How do you mitigate that risk of putting all your eggs in one basket and dealing with just the big organisations? How do you go about making sure those SMEs, not the ones at the level of ASI but the ones further down the scale, feel it is worth their bidding, because it is such a complex procedure, given all the frameworks?

Joy Hutcheon: You are right about the resources that we have, but we are absolutely not looking to contract only with a small number of large contractors. We are assessing in each case the set of implementers we are looking for, to be effective in a particular area. There are a number of examples of things we can do. When we re-tendered Aid Direct, the incumbent was replaced with a UK SME, and we were able to agree with the Treasury that we would provide pre-financing for the grant element of Aid Direct, because they were not able to do that through their own financial systems.

In Nepal, we were doing a community development programme, and we knew that it was going to be extremely sensitive, working on the ground to improve government systems. We were going to need real local capacity, so we identified local NGOs that we wanted to encourage to bid, and we adopted a procurement process, which Nick can talk about the technicalities of, which eliminated the initial stage, where you have to demonstrate a track record of doing similar things in other places, so that they could move straight to the tender process. In fact, the lead contractor in that case is a local Nepali NGO.

In another research programme, we provided a £10,000 bid development grant, because we wanted to make sure that we got bids from southern partners. We ended up letting six contracts, three to UK partners and three to small southern partners, which were able to use those resources to develop their bids. There are absolutely things that we can and do do.

Chair: We are halfway through our time and one-third of the way through our questions, so we will need sharper questions and quicker answers, please.

Q92 **Wendy Morton:** According to publicly available project documents, the Tanzania Land Programme and the Tax, Audit and Transparency programme in Ethiopia have been delayed due to issues of procurement. I wondered if you could describe these issues and the impact this has had on DFID's programming in these particular countries.

***Joy Hutcheon*:** I had a look at those annual reviews over the weekend. In the Ethiopia TAUT programme, there was both a procurement delay and some self-turnover in the key contractor. We have put the programme on a performance improvement plan. We have subsequently brought forward the mid-term review of that programme by 12 months. It was due to happen at the end of 2017, and we have brought it forward to the end of 2016. That has resulted in a major restructure in the programme, which we are just putting in place at the moment. The next annual review will take place in March 2017 and we will assess progress. It is looking better. We have also added this programme to the key supplier relationship dashboard for the suppler, and we have talked to the supplier's CEO about ensuring that there is more central oversight.

Q93 **Wendy Morton:** Are you confident that that one will be back on track to deliver?

***Joy Hutcheon*:** When a programme scores a C or a second or further B, it has to have a performance improvement plan. It has to be written into the delivery plan. The head of the department then has to agree, within six months of that, whether the programme is going to be closed down and restructured, or whether it is going to continue with the improvements in place. I am satisfied that the head of department will have scrubbed this programme, and it will only continue if they believe that the restructuring has got it back on track.

Wendy Morton: The other one was the Tanzania Land Programme.

***Joy Hutcheon*:** That is an interesting one, because it is not directly tendered by us. There is a project implementation unit in Government, which is tendering it. Land tenure reform is hugely transformative if you can do it, but is deeply, deeply sensitive, so there is a very good argument for working through government systems. It has taken a very long time for the Government to manage the procurement of the technical assistance, because some things went wrong with the process. It is now on a performance improvement plan. We have agreed that with the Government. There are 10 indicators that we are monitoring over six months. Again, we had a meeting with the CEO of the implementing partner that Government have contracted. They are not a key supplier, but we had a meeting with them to make sure that they are going to get really intensive oversight from headquarters.

Q94 **Jeremy Lefroy:** What is the basis for the assumption that UK businesses win approximately 85% of the aid contracts because they are competitive?

***Joy Hutcheon*:** It is partly because we run competitions and they win the bids, but it is bolstered by looking at the performance of UK contractors in bidding for development work with other countries and other organisations around the world. It is clear that we have a set of UK providers that are very good at what they do.

Q95 **Jeremy Lefroy:** Thanks; that is very clear. In 2015-16, there was an average of two and a half bids per contract. Do you think that is sufficient?

***Nick Ford*:** No, it is not sufficient. I alluded earlier in the meeting to it not being necessary about quantity, of course, and you can have two effective bids, but it is better if you have more bids. We have increased to around three on average, and in certain areas we have increased a lot more, such as in the example I gave on Mozambique, where we have gone from typically one or two to around seven. In Syria, we have gone typically to two now, but it is still not where I would want it to be. That is why market engagement is a key part of DFID's commercial vision. It is one of the three pillars of DFID's commercial vision. It is also why a key work-stream of the supplier review that we are undertaking is to look at how we can grow our markets.

Q96 **Jeremy Lefroy:** On supplier and partner relationships, in your statement of priorities and expectations, it says that contractors may incorporate "fair but not excessive rewards". How do you define "fair but not excessive"?

***Nick Ford*:** We use competition. The public procurement regulations are a fundamental part of using market forces and competition to drive and regulate the market. We also use cost transparency. We implemented full cost transparency last year, where we see all the way through from net costs, including all overheads and fees, so we have full visibility on profits and we can benchmark that across Government, across our programmes and across the international development system.

Q97 **Jeremy Lefroy:** Would you be able to pick up, for instance, a case where, as part of the bid, there was a person being charged out at £700 or £800 a day for booking air travel, which then ended up being done for perhaps £50 or £100 a day locally, and hence, effectively, a very large mark-up was being taken on that particular line?

***Joy Hutcheon*:** We would absolutely pick that up, because we scrutinise fee rates and the balance of local and international staff, and challenge where we think functions can be carried out locally and do not need international expertise.

Q98 **Chair:** What would you do in that situation, after it was brought to your attention?

***Joy Hutcheon*:** It depends a bit on what procurement process we are in.

***Nick Ford*:** It depends whether it is in the bidding phase, prior to contract award, or whether it is in the contract management phase. Through open book accounting, we have full transparency of cost and fees, as well as auditing rights, so if we detected that in the contract management phase, then the SRO and the programme team would challenge it, reject it as a cost and take it up with the supplier. It might come to my commercial advisers or my team if it was an escalation or a dispute, or they were unhappy with the response. If it was in the bidding phase, then we would clarify that as part of the bidding process.

Q99 **Jeremy Lefroy:** It has been brought to our attention that there is sometimes asymmetric information available and that, for instance, some people may have more access to information relating to a bid for whatever reason; sometimes it may come about through simple errors. What do you do in cases like that?

***Nick Ford*:** I would refute that. If there has been a simple error, we would look at how we would level the playing field or cancel the procurement.

Q100 **Jeremy Lefroy:** We have been given evidence to that effect.

***Nick Ford*:** Running a robust, open and fair procurement is the mainstay and bedrock of what my procurement team and programme sourcing team do. They are a very qualified, professional team. Ensuring that it is a level playing field is a fundamental part of that, so we focus on firewalls and conflicts of interest, and if we are aware that a supplier has provided pro bono work going into the design phase, they will be removed from being allowed to bid, for example.

Q101 **Jeremy Lefroy:** You are saying that, if somebody has been involved in a design phase or a research phase, they would not be allowed to bid for the main contract.

***Nick Ford*:** If the playing field cannot be levelled. It is not a carte blanche, because you need to be reasonable and proportionate under the regulations. If it had given them any perceived unfair advantage, then absolutely they would not be allowed to bid. If it was purely level and all the information was in the public domain, then potentially they could. I just want to make sure you understand that. If we were aware of a supplier receiving some information that they should not have, we would treat that very seriously and investigate.

Q102 **Chair:** Going back to the issue of competitiveness, we asked a number of questions in advance of today's meeting and you responded last week. Your answer showed us that the number of contractors per country has fallen in many of the countries you work in, sometimes quite dramatically. For example, in Afghanistan in 2011-12, you had 43 different contractors; in 2015-16, it was 11. In the context of competitiveness, is this not a concern?

***Joy Hutcheon*:** I had exactly the same reaction to that table, Chair, and I asked a series of questions about it over the weekend. What I now have, which I will share with the Committee, is a table that shows the centrally let contracts over £106,000 and the much smaller contracts. It shows that it is in the much smaller contracts that the number has fallen. The centrally let contracts have remained stable. For example, in Afghanistan, there were 43 and there are now 11. There were 12 central contracts and there are now seven, so the fall has been in the much smaller ones. I have asked the team to check this, but I think it is because of the transfer of all our corporate services to the Foreign Office.

Q103 **Chair:** Can you write to us on that point? I am pleased that you reacted similarly to me when you saw the figures. It would be useful to have something setting that out fully in a letter.

***Joy Hutcheon*:** It is kind of stationery and furniture orders. It is because the Foreign Office now runs the platform and we are not doing a lot of local ordering. I think that is what is happening.

Chair: If you are able, please double check that and write to us with that information. Thank you.

Q104 **Pauline Latham:** Specifically on costing and charge-out rates, what evidence is there that DFID is buying services at competitive rates?

***Joy Hutcheon*:** The evidence comes partly from the competitions that we run. We are able to do some benchmarking. When we look at the rates for some of our big suppliers that are in the government commercial service framework agreement, we can see that the rates that we are negotiating are between 40% and 60% lower than those.

***Nick Ford*:** The high rates often seen in the media do not show the whole picture. It is very rare that we pay high rates. We may sometimes for specialist expertise and very niche services, such as for global leaders in their field or where we are competing against different industry sectors for an economic development expert, but they will be very short pieces of work, and very rarely do we pay the rates often quoted by the media, compared to our standard rates. Whenever we have done benchmarking, including the ICAI report in 2013, it has supported that we receive competitive rates.

Q105 **Pauline Latham:** Do you always see the underlying cost structures for each of the programmes that you contract?

***Nick Ford*:** Yes, we have full transparency.

Q106 **Pauline Latham:** Does the information that DFID sees about those cost structures include mark-ups for contractor staff and subcontractor staff relative to benchmark rates?

***Nick Ford*:** We provided in the data we sent to the Committee last week our cost templates that we put in tenders, and they clearly show all the cost build-up within what we pay, including overheads, profit, as well as net fees and rates.

Q107 **Pauline Latham:** Why does DFID not employ a standardised remuneration framework for contractors like that used by the Australian Government?

***Nick Ford*:** CEO remuneration, capped fee rates and capped profits need to be treated very carefully. We are looking at this as part of the supplier review, interestingly, and we have been talking to the government commercial organisation on this very topic, which is similarly quite sceptical about capping rates—we cap rates in frameworks, but not on major programmes—and looking at CEO remuneration, because what would you do on CEO remuneration? You run the risk of going to an organisation where the CEO is paid less over one where they are paid more, which may impact new market entrants. If you have a large organisation bidding for a programme that is very capable and very good, then the CEO is likely to be paid more. You want good CEOs running the organisation. It is quite difficult to service a cap. Within the Australian example, where they have a rate card, you seem to see rate drift, as we call it, so you always move up to the highest part of that rate, as well as increasing the lower down rates. Plus, how do you balance between paying less but paying for more days and paying more?

Q108 **Pauline Latham:** I do not understand that. Can you explain that a bit more fully? What do you mean: you get up to the top and you go down to the bottom?

Nick Ford: We call that rate drift. If you set a rate and say you will not pay more than £1,000 a day, then over time you will see contractors typically putting people forward who may historically have only been on £800 and are moving up to the top of the different rate bands, depending on what you have for the professional roles that you are recruiting. You will find that you always pay at the top of that band.

Joy Hutcheon: There are different views on this. To date, we have taken the view, and the government commercial office agrees, that there are risks around this, but we are absolutely going to look at it again in the context of the supplier review.

Q109 **Chair:** Presumably, you could compare us and Australia and see whether there rates are higher than ours. Is that one of the things you will be doing?

Joy Hutcheon: Absolutely.

Q110 **Chair:** One of the stated advantages of contracting work is that the contract can be cancelled. Has DFID ever cancelled a contract due to concerns about performance of a contractor?

Joy Hutcheon: Yes.

Q111 **Chair:** Can you tell us more?

Joy Hutcheon: We cancelled nine in the last year, and those were for a variety of reasons.

Nick Ford: It is worth me clarifying the grounds on which we typically cancel contracts. There are two fundamental positions. We can terminate for what we call fault, or we can terminate for what we typically call convenience, so no fault. I was really surprised, joining DFID from 20 years in the private sector, to find what strong termination rights we have within contracts. All our contracts have termination for convenience, which means we can fundamentally terminate the contract whenever we choose, which you would not get as a norm in the private sector. That puts us in the position that it is a quick and easy route if we look to cancel a programme, for whatever reason. We would cancel programmes for a number of reasons, not just underperformance; it can be because of a change in policy direction, because it not delivering value for money, because of unrest within a country, as we have experienced in South Sudan with number of contracts recently.

There are a number of reasons that may lead to terminating a contract. As a responsible public procurer, if a contract is underperforming, you should try to improve and recover the contract first, putting in place an improvement plan, rather than default to terminating work with the delivery partner. You would give the organisation an opportunity to do that before looking to cancel.

Q112 **Chair:** Obviously, we accept that there will be examples where policy changes or the situation on the ground changes, but how many of the cancellations have been for reasons of performance rather than those other reasons?

***Nick Ford*:** Within the data of the nine, I would need to refer back to you in terms of the specific numbers for those reasons. It is worth me adding that, even if you are terminating for underperformance, you may end up not going down the fault route, because it would be quicker, easier and less costly to the taxpayer to go down a convenience route because we have such strong remedies.

Chair: It would be useful to have that breakdown.

***Joy Hutcheon*:** We can send you the list of the nine.

Q113 **Chair:** Thank you. If we are in a situation where the DFID country office has concerns about the performance of a contractor, what does it do? What would a country office do in that situation?

***Joy Hutcheon*:** Depending on whether they were a key supplier manager of not, clearly they would have been raising it on a day-to-day basis with the contractor and trying to address it.

Chair: What about if that gets nowhere?

***Joy Hutcheon*:** They would escalate to the procurement department to raise with the contractor centrally.

Q114 **Chair:** Are you confident that the systems in place work well and the country offices use that system, and therefore when there are concerns in a country they make their way back to you?

***Joy Hutcheon*:** Absolutely. The programme that we described in Tanzania has been added to the key supplier dashboard, to make sure that it is now tracked with the supplier for the remainder of its life. It is quite easy to escalate and to make sure conversation happens in the centre.

Q115 **Chair:** Where a supplier gets a poor score in the supplier relationship management review, does that then have an effect on its ability to win future contracts?

Nick Ford: No. Again, we follow public procurement regulations, which do not allow for past performance to be brought into account in the bidding phase. Each procurement is assessed on its own merit.

Q116 **Chair:** My note here says that the Crown Commercial Service guide to the 2014 EU public procurement directive states that "poor performance under previous contracts is explicitly permitted as grounds for exclusion".

Nick Ford: It is extremely difficult. If an organisation has been found guilty of, say, fraud, corruption or abuse of process, or excluded from a different public procuring body, it needs to state that in its prequalification and can be mandatorily excluded. That is different to just performance. You need very robust systems to be able to take into account any past performance obligations, to ensure that you are assessing the tenders on a like-for-like basis.

Joy Hutcheon: The remedies available to suppliers under EU directives are extremely robust and we would run a risk of ending up in court very quickly.

Q117 **Chair:** Do you recognise what I quoted? That sounds as though it relates purely to performance, not to the other things you have described.

Nick Ford: In the new regulations that came in in 2015, there is—I will use the word—opportunity to bring in past performance. Currently, I am not aware across Government that that is being done within public procurement, because it is so complicated and difficult to apply.

Chair: We will return to that one.

Q118 **Jeremy Lefroy:** Are the programme evaluations always independent?

Joy Hutcheon: We have a framework contract for evaluations, so if a formal evaluation is procured through that framework contract, it will be done by an independent team, but every programme will have a monitoring and evaluation activity. The extent to which that is independent will vary depending on the particular circumstances of the programme. No, it is not true to say that every single programme has an independent evaluation.

Q119 **Jeremy Lefroy:** On what basis would you decide whether a programme would have a fully independent evaluation?

Joy Hutcheon: We have an evaluation strategy, which is overseen by our investment committee. We will try to ensure we do an valuation if a programme is operating in an area where the evidence is not very clear and we want to add to the evidence base; if there is a particular level of complexity; or if we are doing an adaptive programme where we are testing a number of different things and we want to flex the programme as we go along. That might drive us down the independent evaluation route. We expect every annual review to cite the evidence that it is drawing on, and it will have to demonstrate that it has robust monitoring and evaluation evidence.

Q120 **Fiona Bruce:** How much does DFID know about the proportion of the amount of a contract that actually reaches the beneficiaries?

***Joy Hutcheon*:** One thing we are working on doing more robustly at the moment is supply chain mapping, so absolutely mapping every programme down to the beneficiary so that we can see, on one sheet of paper, what starts at the top and where it flows. It will be very different for different programmes. In a programme where we are providing very complex, technical advice to the Government of Nigeria on their infrastructure investments, that will have a massive impact on beneficiaries, but it will be quite indirect because it will be about the efficiency of the use of public resources. In a cash transfer programme, we will be able to say much more clearly exactly what arrives with the beneficiaries as a proportion of what starts out at the top.

Q121 **Fiona Bruce:** If you are working on this at the moment, how can you be sure that you have been providing value for money in your contracts to date?

***Joy Hutcheon*:** What we are working to do at the moment is to make sure we are more consistent and can capture more data right down the delivery chain, so we can have a more sophisticated look at who our second, third and maybe fourth or fifth-tier suppliers are.

Q122 **Fiona Bruce:** To date, you have not analysed what proportion the lead contractor and the subsequent contractors have taken out of a budget against the proportion that reaches the beneficiaries. To give a simple example, the education programme, what proportion is spent on a teacher standing in front of children in a classroom?

***Joy Hutcheon*:** For an education programme or a cash transfer programme, we will always have been able to say to you, "This is the total amount of a programme and this is what will reach the beneficiary". What we are trying to get teams to be clearer about is mapping and risk-assessing every step of the delivery chain.

Q123 **Fiona Bruce:** How do you ensure that subcontractors receive "fair but not excessive rewards", which is the phrase that was used? How can you ensure that that is appropriately comparable with, say, a main contractor's rewards and the percentage involved?

***Joy Hutcheon*:** We will have let the contract competitively to the main contractor. To do that, we would have to have been satisfied that the outcomes the contractor would deliver through subcontracting were good value for money. One thing we want to do now, through this visibility of the supply chain, is to ensure that the responsibilities we are placing on our contractors to their subcontractors, through the statement of priorities and expectations, are discharged and that they are, indeed, not just delivering value of money for us, but treating their subcontractors in an appropriate way.

Q124 **Fiona Bruce:** We would like to know more about that, because the ICAI report from August on managing fiduciary risk seemed to indicate that, once you have granted the contract, you leave that entirely to the lead contractor, in terms of the fact that you have no direct relationship with sub-grantees or subcontractors. You are leaving the fiduciary risk management down to the lead partner. Are you saying you are going to change that?

***Joy Hutcheon*:** When we talked about that report, I explained that we were already in this process of trying to get more visibility of the supply chain. In difficult areas where we cannot get right to the bottom of it ourselves, we use remote monitoring; we employ people to go out and look at it. We have been doing this for some time, but we want to now drive it a bit harder and make sure that we do not just know that we are getting value for money because of the top contract, but we have visibility of how the subcontractor is being treated and where the risks are. We need to do spot checks on due diligence that a tier-three supplier may have done on a tier-four supplier, so that we can look at a programme and say "Actually, we think there is a bit of a risk in this bit of the supply chain. Let us go and probe that a bit more".

Fiona Bruce: If you could write to us as to how you propose to improve this, I would be very grateful. In particular, I do not know about my colleagues but I am really concerned that there is fair remuneration for the in-country staff on contracts. Please address that point particularly.

Q125 **Mr Nigel Evans:** I would like that too, because it is an aspect of international development that is completely direct, if you are employing local people and giving them decent money. Most of the questions I was going to ask have actually been answered. The one I would really be interested in is this: at what level do you encourage the contractor to get the subcontractor to play a role in the planning of whatever project it happens to be, so it is not just top-down?

***Nick Ford*:** We would do that through the formation of the consortiums and early market engagement. At the early market engagement events, we would send out signalling that we would not necessarily expect a single organisation or a single prime to be able to undertake this programme, because they would not necessarily have the capability or the skillset. They would therefore have to partner or form a consortium, because they would need that technical capacity within the bid. That is a key part of market engagement, as well as warming up the market, to try to ensure that that networking and those discussions are taking place.

Q126 **Mr Nigel Evans:** That is fair enough, and it is probably going on from something that Fiona was hinting at earlier on. Are you absolutely certain as well that, where this process takes place and a contractor uses a subcontractor because it is valuable and brings expertise to the table, but it might be quite expensive, the contractor does not, once the contract is given, ditch the subcontractor and use somebody else or, indeed, do it itself? Are you happy you have processes in place to stop that?

***Nick Ford*:** No, I am not happy that we have robust processes in place to stop that. There are two parts. If there are key personnel within the bid and the contract—and we mentioned examples—I am happy. If they were identified as key personnel, then we have a good process, and the Sierra Leone example I used before is one with the second tier. Through the life of the programme is where I am a bit more concerned. We are going to use the supplier review to look at what alternative compliance-type arrangements we can drive. As I mentioned before, we have focused in the last 12 or 18 months on setting the expectation, and we have been very clear with suppliers that they need to treat subcontractors fairly. The hard lesson going forward is how we enforce that and ensure it is happening. We will look at that as part of the supplier review.

Q127 **Mr Nigel Evans:** Good, and it is not going to be treated like retrospective planning, where a contractor does something, you find out about it and they say, "Well, we had to do that". There has to be reporting back to you if they do anything as dramatic as drop a subcontractor that is instrumental to the bid that they won in the first place.

***Nick Ford*:** Yes.

Mr Nigel Evans: Good, thank you.

Q128 **Chair:** Can I take us back to earlier questions about procurement? We have had evidence that says there has been a recent increase in the number of procurement cancellations and retenders by DFID. First, do you accept that? If you do, what is the reason for it? I can tell from your face that you do not.

***Joy Hutcheon*:** I do not recognise the data. It is very rare for us to cancel and retender.

***Nick Ford*:** I agree. I am not sure we have had a recent spike. From time to time, we may cancel a procurement, on a variety of grounds: a change in policy, a change in direction or, in fact, if we have made an error in the procurement, which my team very rarely but now and again may do. Therefore, we would cancel a tender. We have cancelled a couple and are rerunning them in different ways, but we do not have a spike.

Q129 **Chair:** Can I take us on now to the supplier review? What is the timing of the supplier review?

***Joy Hutcheon*:** We expect the whole process to be completed by the summer. We are pressing on with fieldwork at the moment. Ministers are clear that different elements of it were run on different timescales, so some things may emerge that they want to implement immediately, such as safeguards, and other things, such as a plan to introduce more open-book contracting, will run for a longer period of time. We are also trying to work out how to make sure that we capture the lessons from your inquiry and from the ICAI inquiry, which will report a bit closer to the summer. We expect it to be concluded by the summer, but it may not be packaged up in one final product; you may start to see things happening before then.

Q130 **Chair:** At each stage, or at least at the final stage, will there be a published output? Will there be a report of the supplier review?

***Joy Hutcheon*:** I do not know the answer to that yet.

Q131 **Chair:** It would be useful to have an answer to that. I understand your answer, saying that there will be different stages and that you can move more quickly on safeguards than on the broader system. That makes sense to me, but obviously from our point of view and the taxpayers' point of view a report is helpful.

***Joy Hutcheon*:** There will be a package of things we can put in front of you and say, "These are the public outcomes of the supplier review". As to whether it will be one single report or a number of things, I cannot give you the answer at the moment.

Q132 **Chair:** Obviously, as a committee, we welcome the fact that the review is happening and welcome your answer in saying that our findings will hopefully inform the work of that review. In the Secretary of State's letter to suppliers, she set out more stringent regulations for contractors, and clearly in many ways we would be supportive of that, but we have had evidence to the inquiry that suggests that this could result in an increase in the cost of compliance, which could particularly serve to disadvantage smaller contractors. How do you plan to balance that: the reassurance, rightly, of wanting stronger regulation, but not further disadvantaging smaller organisations?

***Joy Hutcheon*:** There are some things we absolutely have to have from any organisation. Any organisation has to be able to explain to us how it is tax compliant and how it is compliant with our security processes. We want to find ways of ensuring—I am trying to not use the "incentivise" word—that every supplier we directly contract follows our statement of priorities and expectations. We want to find ways of doing that without putting undue burden on suppliers and, in particular, without disadvantaging small and medium suppliers.

Part of that is improving our own systems, so that we can capture data from suppliers more easily and in a way that is not burdensome. Part of it is being smart about how we design the set of things that will ensure that suppliers are compliant. Part of it will be about getting more visibility from the second and third tiers of our supply chain, because it may be that some suppliers will conclude that that is actually the right place for them to be.

Q133 **Chair:** We talked earlier about this issue of the Cabinet Office definition of a small or medium-sized enterprise, and the other, tighter category of the micro-enterprise is one that will be of interest to all of us on the Committee. Can you give a commitment today that you could do something to ensure that there is fairer access for micro-suppliers to procurement in the future?

***Joy Hutcheon*:** It is absolutely at the heart of the supplier review. We are looking at how to broaden our supplier base and become more accessible to smaller suppliers, so I can completely assure you that we will be looking very hard at that.

Q134 **Chair:** Can I also ask about payments by results and where that fits in to this? Submissions to the inquiry have highlighted that results-based contracts often exclude smaller organisations, because of the burden of financial risk, and yet the move towards a greater use of this is listed in DFID's SME action plan as an SME-friendly procurement practice. How can it be seen that way?

***Joy Hutcheon*:** We need to know that we are getting results and outputs from every contract we let. We are trying to learn how to do this in a way that is SME-friendly. Through the Girls' Education Challenge programme, we have done a lot of work on payment by results with small suppliers and tried to think with them about the sorts of models that work. In the Nepal example I cited earlier, where we ended up with a local NGO as the lead contractor, we asked them to propose a payment by results approach that would work for them and be manageable for them, so that we could make sure that we did not put them in a difficult position.

Q135 **Chair:** The National Audit Office has said that result-based contracts generally work in favour of larger organisations. Do you accept that?

***Joy Hutcheon*:** We believe that, if we pay attention to the way that we do them, in the way that we are doing, we can make them work for our small and medium suppliers.

***Nick Ford*:** It is horses for courses and applicability. We certainly should not be using a PBR mechanism if we do not think it is right for the programme or for the market we are trying to stimulate through the exercise. We look on a case-by-case basis at what the right type of contract model would be. As Joy said, the recent one in Nepal is a good example, where we have worked a solution through for an NGO in that case. For UK Aid Direct, the fund management is being run by an SME and we work with Treasury to provide financing for the fund element. There are different things we can do to ensure it is not a barrier.

Q136 **Jeremy Lefroy:** Is disability inclusion factored into all contracts?

Nick Ford: I would have to come back to you on that.

Jeremy Lefroy: If you would, because the disability framework at DFID says that all private sector contracts must do that. We would be keen to see evidence of that.

Q137 **Fiona Bruce:** How does DFID ensure that higher rates paid to national staff do not draw them away from national institutions and weaken their capacity?

Joy Hutcheon: This is a difficult issue, because on the one hand we want to increase the amount of business that is going to local organisations. On the other hand, we do not want to strip out from government systems. We have a principle that any of our programmes should be doing no harm. We have to remember that capable nationals have other options open to them and, if they do not work for us, they may well end up working internationally or working for other suppliers. One of the ways that we try to ensure that we deal with this is being very careful about working through government systems where we might otherwise be stripping expertise out. That is one of the reasons why the UK will not go and set up a parallel set of clinics next door to a set of government clinics, which would suck all the health staff out of the government clinic into the parallel clinic. We will always try, as far as we can, to work through government systems and strengthen them. That is one of the key ways that we keep teachers and medical staff, for example, locked in.

Q138 **Fiona Bruce:** This goes back to the question that I was raising before. How do you ensure that a contractor does not do that, because you do not have the same hands-on control, do you?

Joy Hutcheon: We would have the expectation of doing no harm through our statement of supplier priorities and expectations. Again, it comes down to this process, which I must not describe as incentivising, of trying to understand how we ensure that those responsibilities are passed down through the supply chain and not just met by our top-tier suppliers.

Q139 **Fiona Bruce:** It is part of something you are looking at in reviewing your processes and checks and balances.

Joy Hutcheon: Yes, how we ensure that the people we are contracting are compliant with our expectations down the supply chain.

Fiona Bruce: Perhaps you could add that to your note to us then, please.

Q140 **Jeremy Lefroy:** There is a slight element of hypocrisy, given what we do with the NHS, in taking people into the NHS from countries when they are needed there. If you could in that note also address the question of the private sector, I have seen instances where people have been taken out of important positions in the private sector, simply because the rates available through consultancy are so much higher. You wonder whether it is acting to the benefit or detriment of economic development of the country when that happens.

Q141 **Chair:** Let me ask a question about the OECD DAC bulletin board. In 2001, the UK signed the Paris Declaration, which said that "donors will promote the use of local and regional procurement by ensuring that their procurement procedures are transparent and allow local and regional firms to compete." The OECD encourages donors to meet this transparency requirement by publishing a centralised bulletin board. My understanding is that DFID used to contribute to that and no longer does. Why not?

***Joy Hutcheon*:** My understanding is that we do not publish the information there, but we publish it in lots of other openly accessible places. Nick may understand why we do not use that particular site.

***Nick Ford*:** As the Committee has probably seen through the various evidence that we have submitted, we have some system integration capability issues, which stop us from being able to integrate and publish to other sites. We currently publish on our own portal and on the Government's portal, which is what our system is connected up to, but we do not currently publish on that. As to whether we could manually, I would have to look at that.

Q142 **Chair:** Could you take a look at that? It seems to me that, not least for our own country's reputation and good will, if other countries are able to put information on there, surely a technical way must be found for that to be done.

***Joy Hutcheon*:** There is not a transparency deficit here. This will be solved through the more sophisticated data systems we are intending to use.

Chair: Can I thank you both for coming before us today and for your evidence, which is very important for our inquiry? We will publish in due course. I am delighted you have said you will take our recommendations into account as part of the supplier review, and there were a number of issues that arose during questioning where you agreed to write to us. We look forward to hearing from you shortly. Thank you very much indeed.