

Public Administration and Constitutional Affairs Committee

Oral evidence: Civil Service Effectiveness, HC 497

Monday 15 January 2018

Ordered by the House of Commons to be published on 15 January 2018.

[Watch the meeting](#)

Members present: Mr Bernard Jenkin (Chair); Ronnie Cowan; Paul Flynn; Mr Marcus Fysh; Dame Cheryl Gillan; Kelvin Hopkins; Dr Rupa Huq; Mr David Jones; Sandy Martin; David Morris.

Questions 375 - 521

Witnesses

I: Sir Jeremy Heywood, Cabinet Secretary, Cabinet Office, John Manzoni, Permanent Secretary, Cabinet Office, and Rupert McNeil, Chief People Officer, Cabinet Office.

Written evidence from witnesses:

– [Cabinet Office](#)

Examination of witnesses

Witnesses: Sir Jeremy Heywood, John Manzoni and Rupert McNeil.

Q375 **Chair:** I welcome our three witnesses to this public evidence session on civil service effectiveness. Could I ask each of you to identify yourselves for the record, please?

Sir Jeremy Heywood: Jeremy Heywood, Cabinet Secretary.

John Manzoni: John Manzoni, Permanent Secretary to the Cabinet Office and Chief Executive of the civil service.

Rupert McNeil: Rupert McNeil, Government Chief People Officer.

Q376 **Chair:** Thank you very much for being with us on what I imagine is an even busier day than usual. Indeed, the collapse of Carillion has already been the subject of discussion of this Committee, both informally last week and today. I am able to inform you at first hand that we are going



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to conduct a new inquiry on sourcing public services: lessons to be learned from the collapse of Carillion. This will go wider than just Carillion and look at some of the issues that we will want to revisit from our 2014 report on public procurement and indeed our report on IT and Government from 2012, also drawing on our scrutiny of the collapse of Kids Company in terms of the relationship between Whitehall Departments and non-public sector providers of services, though this is on a very much grander scale than that particular controversy.

In the light of that, I hope you will be happy to answer one or two questions about Carillion, though I do appreciate that the Minister for the Cabinet Office is shortly to make a statement. I am not asking you to pre-empt anything that he would say, out of respect to him, but maybe you could help us with one or two more general questions.

How do the Government judge the overall exposure to particular companies across the public sector as a whole? Individual Departments or even Whitehall on its own would not naturally, from its own architecture, gather that intelligence about its overall exposure to risk.

Sir Jeremy Heywood: John, do you want to kick off on that?

John Manzoni: Yes. As you know, we have put in place, or are putting in place—and have started for a year or two now—a functional structure across Government, one function of which is the commercial function. The commercial function's role is basically to oversee the relationship between the public and the private sector. In this instance, we have over the last year or two identified between 30 and 35 companies that are the biggest suppliers to Government. I am talking about central Government now. Across Whitehall we have identified 30 to 35 companies that are what we call strategic suppliers. We have dedicated teams focused on those so that we are over time beginning to understand much more about the totality of the business across Government.

In this case, had we had this situation a couple of years ago, I think the outcome would have been significantly different and probably significantly worse for the public sector than it is today. By the way, that does include, in a broad sense, the Department of Health and hospital trusts as well. In this case, we can identify the contracts that this particular company has. For the local authorities it is a bit more difficult. We are beginning to understand how we might choose to do that, but that is a distributed activity and that is a bit more difficult.

Q377 **Chair:** How dependent are you upon the Crown commercial officer with regard to that company?

John Manzoni: There are two things. Do you mean the Crown commercial representative?

Chair: Yes.

John Manzoni: We have 22 of them across the system. These are part-time roles. They are more senior part-time strategic roles. We have



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underneath them about 20 of the 35 so far, but we have dedicated teams focused on the 30 strategic suppliers. In fact, the horsepower is coming from the full-time teams, headed by a strategic partnership manager, whereas the Crown rep is a part-time, more senior role. This is a programme that has been going on for two or three years now, I think, and has led to this deep, more strategic and more lasting programme of full-time focus on these.

Q378 **Chair:** For how long was Carillion without a Crown rep?

John Manzoni: The Crown rep rotated off Carillion in about summertime this year.

Q379 **Chair:** So there has not been one during this period?

John Manzoni: No, there has not been. I have to say that, in fact, as I have said, the horsepower around Carillion has been provided by the in situ full-time team, headed by the strategic partnership manager, who has played a blinding role in this particular circumstance.

Q380 **Paul Flynn:** Blinding in what sense?

John Manzoni: Very good.

Q381 **Paul Flynn:** Not that he had his eyes covered?

John Manzoni: No. It was a she. She has done a really good job over the course of the last several months.

Q382 **Chair:** How easy is it for a Department to say to a company, "We have decided you are looking a bit high risk at the moment. We do not want you to bid for this contract," without being accused of discrimination against a company?

John Manzoni: As you know, we cannot do that under European procurement rules. We have to be completely open and clear under our procurement rules, but we do have continuous dialogue. We are getting better and better. I am not saying it is a finished job, but we are getting better and better. We have a lot of dialogue with all of these strategic suppliers and they do a lot of business with procurement.

Q383 **Chair:** Why can't you say to a company, "Look, you have all these broker circulars who have been short-selling against you in the markets. You have issued profit warnings. We think you should take a holiday from bidding for Government contracts for a bit because you are looking a bit high risk"? Do you mean the Government cannot do that?

John Manzoni: Because it is against the law, Chairman.

Q384 **Chair:** How are the public meant to understand that you are mitigating risk when you have to let them bid and then award them contracts even if you do not want to?



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John Manzoni: We never award contracts that we do not want to. We have a full evaluation process. There is never a contract awarded that we do not want to award—otherwise we would not award it.

Chair: I think you understand what I am asking here. I do not think I am getting an answer.

John Manzoni: Let me see if I can understand it. Try again.

Q385 **Chair:** If you cannot exclude them from bidding and they produce the best bid, then presumably you feel legally bound to award them the contract.

John Manzoni: We have a full evaluation process of all the bids, which includes a range of factors, financial health—

Q386 **Chair:** You could block them at the last minute?

John Manzoni: If they do not meet our conditions, then of course we can score them lower on certain things. We do a full review of all the conditions of any company as we award these bids.

Chair: I am going to leave it there. I will bring you in in a second, Cheryl.

Q387 **Mr David Jones:** The Government have been very quick to issue assurances that employees will continue to be paid and that services will continue to be delivered. In fact, the Minister for the Cabinet Office, David Lidington, said the message to workers is, "Come into work today. There is important work to be done. We, that is the Government, will pay you." Has any assessment been carried out as to how much these assurances may cost the taxpayer?

John Manzoni: In broad-brush terms, yes. Perhaps I can explain the way that this has happened. This is a highly unusual situation, in some senses managed to the state that we are in today via us and our conversations with the company and with the official receiver. It is very unusual for a company of this scale to go straight into liquidation with the receiver. Usually they go into administration. That is a far more random process; it is a far more brutal set of activities. What we have done is put this to the official receiver with the instruction to maintain the continuity of public services. That is quite a deliberate act. From the moment this happened there were communications throughout the system, exactly as you say, to all of the employees that are showing up across the public sector to say, "Please carry on coming to work because you will be paid."

The cost of that of course is no greater than the provision of the service in the normal course. The bulk of the activity that for the moment we could, if you like, focus on the official receiver and understand is the cost of the services that are being provided every day. That will carry on. There may or may not be some additional cost as a result, for instance, of the administrative team that we have had to put in underneath the official receiver, which again we put in place in the company some weeks ago in order to prepare for this situation—contingency. There will be



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some administrative cost to that, but it is too early to understand the total cost. The bulk of the cost of this activity is of course the cost of the provision of public services, which would have happened anyway.

Q388 Mr David Jones: Carillion has a large number of subcontractors. Do the assurances given extend to those subcontractors and to the employees of those subcontractors?

John Manzoni: To the extent that there are subcontractors providing the public services, the message has been, "Please maintain stability. The bills will continue to be paid." I am not going to say that there may be some individual in some small subcontractor somewhere down the supply chain who gets nervous about something and chooses not to show up. We have no evidence of that, by the way, in the first few hours of this crisis. We appear to be in a good place. I think that the activities and the structure through which we have managed this particular liquidation has thus far mitigated the worst of those impacts and our intent has always been to maintain the consistency of public services.

Q389 Chair: Just for clarification, you are talking about the public sector contracting part of the business, not the construction side?

John Manzoni: Not the private sector. Some of the construction activity is related to the public sector as well.

Q390 Mr David Jones: One of the major contracts that has been referred to extensively in the press today is the £745 million Aberdeen bypass, which I assume is a contract entered into by the Scottish Government. Have you been liaising with the Scottish Government on this?

John Manzoni: Yes.

Q391 Mr David Jones: Are the same assurances being given in respect of Scottish contracts?

John Manzoni: To all of the Carillion public sector contracts, yes, those assurances have been given. In the case of the Aberdeen bypass and in many of the infrastructure contracts, by design these are undertaken by joint ventures, so Carillion is one of a number of partners. The construct of those contracts is joint and several liability and that is exactly the reason we do it, so that if one of the parties fails the others can step in. Indeed, today Kier has stepped into one of the very biggest contracts immediately on the failure of Carillion to say, "We will cover and take over." That is true for many. There are many other companies.

Q392 Chair: Which contract?

John Manzoni: It is the HS2 contract. The same is true in Aberdeen. Aberdeen is in a joint venture structure.

Q393 Chair: What happens to the PFI contracts for individual schools where the school is paying for the financing and paying for the facilities management perhaps?



John Manzoni: It is a horribly complex set of financial structures, which I will just get in a knot if I try to explain it all in this Committee. In fact, the Department for Education has put in place over the course of several months assurances to itself, and so far so good; there are contingency plans for all of these things. Usually what happens is that the SPV—the special purpose vehicle in order to run the PFI—steps in and the lenders to the SPV get to pick up the bill. That is roughly—

Chair: We will not go into more detail now. I will bring in Kelvin briefly because he has a question.

Q394 **Kelvin Hopkins:** I put it to you that this phrase has been used quite a lot: lessons learned or lessons to be learned. This is not the first crisis of this kind. We had Jarvis in 2004, when I asked a question of the Prime Minister—which I have here—about Jarvis. Later on we had the double debacle of Tube Lines and Metronet on the London Underground, which was absolutely opposed by the Mayor and TfL. Eventually that collapsed and it went back into the public sector. Do we learn some lessons from these things or do we just carry on?

John Manzoni: No, I believe we learn some lessons. First of all, what I would say is that in the end of course we are talking about private sector parties. Companies fail and succeed, so we need to expect some of that to happen.

Secondly, I would say that, as I have mentioned, the commercial function I believe has put us in a much, much better place to manage this particular issue than we would have been in the past. Indeed, some of the lessons learned resulted in the building of commercial capability across the public sector and across the Government. In fact, in this particular instance, the official receiver is duty-bound to investigate what went wrong in the fullness of time. We need to be slightly careful about how we do that, because otherwise we might prejudice the official receiver's ability to do that, but of course we should be interested in learning lessons in this and across our system to see how we can improve.

Let me repeat that I think in many ways this is the failure of a private sector company. It failed to reach agreement with its lenders in the final analysis. Some wheel is going to come off sooner or later somewhere in the system, but this is a very complex structure. I believe that our structures and the lessons that we have learned from the past have put us in reasonably good stead for this.

Q395 **Dame Cheryl Gillan:** Aren't you just putting a hugely brave face on what is an absolutely catastrophic situation? Basically what you are saying to us is that there is no contract that the Government can sign that will ever be too big to fail.

John Manzoni: This company has failed. I think the shareholders and the lenders to this company have lost billions. This is certainly not an example of too big to fail. This company has failed and its shareholders



and lenders have been wiped out to the tune of billions of pounds. That is genuine failure.

Q396 **Dame Cheryl Gillan:** But you are going to still support HS2 and all the other projects that this company was signed up to?

John Manzoni: What we are doing is paying for services that the public sector is going to receive. Essentially, we want to build HS2, so we will pay for the building of HS2. What has happened is that the intermediary, which happens to be this company, has failed in so doing. What we have done is put in place processes and structures that will allow us to continue to pay for the service we receive, because that is what we want to do.

Q397 **Dame Cheryl Gillan:** It is no secret that I have taken an interest in the HS2 project over the past few years.

John Manzoni: I understand.

Dame Cheryl Gillan: On 17 July I forced the Secretary of State for Transport to come and make a statement to the House of Commons very late at night—it was a very unusual thing—because after the contracts were signed there were question marks over a large number of the companies that were signed up to HS2. I asked on that occasion whether due diligence had been carried out on all the companies and whether we weren't, in reality, transferring to the taxpayer unacceptable levels of risk. They were companies that had major project overruns, where there were £50 million of losses from another company and where there were three outstanding health and safety prosecutions. One of those companies is one the Government are seeking to rely on to pick up the bill on the particular HS2 project. Do you think that is acceptable in terms of risk to the taxpayer, bearing in mind it is a £64.5 billion project now, at a conservative estimate?

John Manzoni: Let me answer in this way. The private sector has successfully delivered many, many projects for Government. Just through the PFI structure, £60 billion-worth of infrastructure has been delivered into this country, which the Government have not paid for and the private sector has paid for extremely successfully, all by the same companies, one way or the other. Of course there are good ones and bad ones, but the structure of what we do in that particular case is a joint venture of three companies in particular for this reason: the risks are shared. In this case, one of those companies has already chosen to step in and said, "We will cover this." That is why we structure it that way.

It is of course a much bigger debate and there are various better companies and worse companies, but in particular this country is very good at building infrastructure through the private sector and through the various financing constructs that we use, through the delivery authorities that we use, and we have been very successful at it. In general that is of course something that we have to keep under review, but I come down to say it has been net/net very positive for the country.



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Q398 Paul Flynn: Could I ask Sir Jeremy the questions, because mine are more general ones about the conduct and the role of the civil service? How would you describe the conduct of the two civil servants who warned about giving £3 million to the bottomless pit of Kids Company—which happened to be a Government poster project at the time—and who made a public statement saying that giving £3 million to them was unwise, four days before they went bankrupt?

Sir Jeremy Heywood: I think the civil service and the civil servants involved conducted themselves very well in relation to Kids Company. They demanded an accounting officer direction because we were uncomfortable about the decision that Ministers wanted to take. I think the system worked in the way that it was intended to, which was that we took a dispassionate view as civil servants as to the likelihood that that was going to be a productive use of money. Ministers decided that they wanted to give it one last go and that was very public. This Committee has subsequently looked at it, so I am very comfortable with the quality of the work done on that.

Q399 Paul Flynn: I think we would all agree that this is civil servants doing the job they are supposed to be doing in the interests of the nation. Why did that not happen with Hinkley Point? We have had two reports on Hinkley Point from the National Audit Office and from the Public Accounts Committee. They have pointed out that the additional cost that is likely to be paid on future bills by the poorest section of the community is £30 billion for a system that technically has never worked anywhere. Do you think there should have been a point where civil servants should have intervened and given us the information that we have now from the auditors, but we did not have when the decision was made?

Sir Jeremy Heywood: The civil service has looked at that issue on multiple occasions in a very searching way and at each time has looked at the value for money calculation and has concluded that on balance it is a value for money project. That is because a lot of the analysis that people put forward fails totally to take into account the risk transfer that is there. Not a penny of taxpayers' money is at risk in relation to Hinkley Point, and that is because we have structured a contract that leaves the risk with EDF and its partners. Therefore, just simply looking at this without taking into account the risk transfer is a very narrow way of looking at it.

Q400 Paul Flynn: Your view is not the one that is supported by the National Audit Office or the Public Accounts Committee. If we can take one part of your very optimistic view of the future of this, Électricité de France at the time of the award of the contract and now are 38 billion in debt. The assumption was that if Hinkley Point had not gone ahead they would have gone bankrupt, if a nationalised company can go bankrupt. Do you think that there is a bearing on this; that when we look at a company that is clearly a basket case it is up to civil servants to intervene and stop Ministers—or at least try to persuade Ministers—from making a catastrophic mistake?



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Sir Jeremy Heywood: It definitely is the job of the civil service to look at the facts, look at the analysis, look at the balance sheets, look at the risks, the contracts and so on, and if the civil service thinks that Ministers are making a mistake by going ahead with a course of action, they should certainly say that without fear or favour. On this one, I do not agree with the NAO's analysis. I do not think that took into account the risk transfer that was there. So far, I repeat, the taxpayer is not subject to any cost overrun at all. That is held entirely by EDF, the contractor.

Q401 **Paul Flynn:** There are other problems. I will not dwell on it. Just take the case that we have before us now. Early in the year, in the summer and in the spring, there were profit warnings from Carillion. It was quite clear that there were serious problems there. Why were they awarded a big contract subsequent to that?

Sir Jeremy Heywood: John has already partially answered that. There was a profit warning last July. Profit warnings are made by companies. That obviously puts us on warning that there is an issue here. It does not necessarily mean that the Government have to pull all their business because that could then trigger a complete collapse of the company.

What we do have to do is be much more vigilant and we therefore have to look at these things case by case. As John said, we have to apply the criteria that has to be applied, including financial management quality of the potential bidders and so on. In this particular case, as he has already indicated, I think in almost all cases since that July profit warning the contract was handed to a joint venture. The joint venture partners have then become liable to step in, in the event that Carillion was unable to fulfil its role. That is the extra protection that was secured post that profit warning.

Q402 **Paul Flynn:** The private financial initiative, as introduced by Prime Minister John Major, was an attempt to get instant gratification for politicians by paying expensively for money borrowed usually from the private sector. Has an analysis been done to say how much the economy has gained or lost from this, bearing in mind the great debt that many of the PFI schemes are still carrying? Mr Manzoni seemed to suggest that this PFI practised by all those Governments since John Major's time was a great success. Was it?

Sir Jeremy Heywood: I think there have been some very, very successful PFI contracts.

Paul Flynn: I am aware of that. You are not answering my question, are you?

Sir Jeremy Heywood: I think your direct question is: have studies been done? I am sure lots of studies have been done. Certainly in Government we have studied PFIs. We have improved PFI along the way. We now have PF2. We have tried to learn the lessons. Yes, the cost of finance has sometimes been expensive, but equally it has been a way of disciplining



the project so that we have had more success in getting projects in on time and on budget.

Q403 **Paul Flynn:** But there has not been a proper analysis of it on the whole and what has happened where there has been a private gain or a private loss?

Sir Jeremy Heywood: There have been plenty of analyses done of the success or otherwise of PFI.

Chair: We will conduct our own analysis as part of our new inquiry.

Q404 **Paul Flynn:** I look forward to that. I am interested. As we know, there was a story that there was a video that civil servants had preparing to give answers to questions from a Select Committee. The general advice is to make your answers as puzzling as possible and use as many words as possible and speak for as long as possible in order to avoid the Committee asking too many questions. Are you rehearsing for making a new video today?

Sir Jeremy Heywood: Sadly, I have never seen this video. It would have been very good preparation for this Committee.

Q405 **Chair:** I have no doubt that you will put it into the public domain, if it exists, as quickly as possible. Could we move on now? Thank you very much for being so candid.

Sir Jeremy Heywood: Could I make one general point, just to echo the point that John made? In the context of this overall inquiry into the effectiveness of the civil service, I do think the point he makes is absolutely right. One of the things we have learnt over the years—and I certainly learnt this following the Serco/G4S saga a few years ago—is that we needed to improve the quality of our commercial function. That is one of the reasons why for the last three or four years we have absolutely prioritised building the quality of our commercial profession, bringing more people from outside, making sure that everybody that is in the commercial profession is of the right standard by putting them through an assessment centre, having much more of a grip at the centre, better information about what contracts we have and also doing this contingency planning.

People are lightly moving over this thing, but the fact is that John's team—and John has led this work—have done weeks and weeks of contingency planning against the worst-case scenario, which is what has happened today. No doubt it is a bad outcome for the country, but the work that we have done in the commercial profession, trying to understand across 450 public sector contracts what will happen in this worst-case scenario, is work that 10 years ago the commercial function in the civil service would not have been capable of doing—it would not have known where to start, frankly. The fact is that we now have a total understanding of where the contracts are and we have the ability to convene Whitehall and we have the ability to interrogate what the



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planning is, learn from each other and so on. None of that 10 years ago, probably even five years ago, would have been possible.

I think you have seen a step change in the maturity of that commercial function. On days like this, it reminds us why that is so important. It is not bailing out companies; it is the continuity of services. It is making sure that essential services are not interrupted when something like this happens.

Chair: I am grateful for that and that gives us a lot more to draw on. I have three more supplementary questions on this topic, but I do want to get on with the main topic of this evidence session. I am going to start with David Jones, Cheryl Gillan and then Sandy Martin.

Q406 **Mr David Jones:** If we could go back to the profit warning last year, three separate contracts were allotted to Carillion on a joint venture basis after that profit warning. Did officials ever consider in the case of any of those contracts requesting a letter of direction from the responsible Minister?

John Manzoni: No. As Jeremy said, if you go and look at the market, there are profit warnings pretty much every day across the market, so we have to be a bit cautious about how we deal with this. Of course it also put us on alert in July. This company we really started to notice as late as November, when it said it was going to miss its bank covenants or it had some danger of missing its bank covenants. No, no directions were asked for as a result of the profit warning in July.

Q407 **Mr David Jones:** Again, the second profit warning was in November, and I think a contract was allotted after that profit warning.

John Manzoni: I think a very small one has been.

Q408 **Mr David Jones:** That was the upgrade of the London to Corby route?

John Manzoni: Yes, I think that one was a £10 million or £20 million contract. I do not have the complete detail, but it was after the November warning.

Q409 **Chair:** My understanding from what you have already said is that it was the other way around: officials and lawyers were advising Ministers that Carillion could not be excluded from the contracting process for fear of legal action.

John Manzoni: We do not have explicit conversations. There is a law and we follow the law.

Chair: I made the point.

Q410 **Mr David Jones:** Secondly, given that these were all joint ventures, presumably you carried out extra-vigilant due diligence in respect of the other parties to the joint venture?



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John Manzoni: Since the summertime, the answer to that question is yes. In fact, the big contract that was awarded at around about the time of the summer profit warning—these things take time to go through the process—was specifically amended in order to ensure that joint and several liability, to make sure that the protections were greater thereafter. I do not have the detail, frankly, of all of the contracts today, but I know that that one was specifically amended to make sure that there were stronger protections in place.

Q411 **Mr David Jones:** You are comfortable with the wherewithal of the other contracting parties to the joint ventures?

John Manzoni: For the moment. There is no reason to believe otherwise.

Q412 **Dame Cheryl Gillan:** I want to ask you why the due diligence on all these companies was not carried out in depth before the contracts were awarded.

John Manzoni: It was.

Q413 **Dame Cheryl Gillan:** You immediately went into action in July, you said, or in the summer to—

John Manzoni: No, we changed the nature of the contracts in July. All the due diligence is done on all these companies all the time.

Q414 **Dame Cheryl Gillan:** Surely that meant therefore that the due diligence that had been done before had not been sufficient for you to have to change the contracts.

John Manzoni: Not necessarily. Nothing happens overnight in the market. Companies go from strength to—

Q415 **Dame Cheryl Gillan:** No, but let's face it: the hedge funds were betting against Carillion from before the summer.

John Manzoni: Yes, hedge funds do and sometimes they win and oftentimes they lose.

Q416 **Dame Cheryl Gillan:** But this was on a company that was being awarded major, major contracts with—

John Manzoni: I think Jeremy made the point earlier that Government have to be quite thoughtful and responsible about this. If Government take a radical view, it could almost make that outcome inevitable. We have to be very even-handed about this. Just because the company has given a profit warning, we cannot immediately say, "We do not want to touch that." First, it is not legal, and secondly, it might even make it all happen.

Q417 **Dame Cheryl Gillan:** I appreciate there is going to be a huge post-mortem on the whole of this operation. On this Committee, we have looked quite closely at the capabilities of the civil service as regards risk



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assessment and also procurement. We have found it has been wanting in both those areas. In order for this Committee to be able to understand that process better, because obviously you are in the middle of handling the situation, could you provide a timeline and the details of what due diligence was carried out on all the bidders for the HS2 contract and at what stage you reverted to changing the contracts and so on? We always find these documents are usually quoted as being commercial in confidence and it would be very helpful for us to be able to learn lessons from this and to be able to see that timeline in detail. Do you think that is something you could provide to the Committee?

John Manzoni: Let me go and check. If I can provide it, I will.

Q418 **Dame Cheryl Gillan:** Sir Jeremy, is that possible, as such?

Sir Jeremy Heywood: It should be possible, yes.

John Manzoni: There are some commercial confidentiality issues.

Q419 **Sandy Martin:** I just want to come back on something you said, Sir Jeremy. You said that not a penny of public money was at risk from the Hinkley Point contract because the risk had all been transferred in the contract. Why was the risk not all transferred in the Carillion contract, or indeed in the Railtrack contract, or in various other contracts that the Government have had with private sector companies? I do not understand how you can say that there is no risk because it has been transferred in the contract when the entity that you are contracting with is at risk of disappearing.

Sir Jeremy Heywood: The point I was making in relation to Hinkley Point was that the Government, or the energy consumer in this case, will not pay anything if this company fails to deliver the project.

Q420 **Sandy Martin:** If they build three quarters of it, or nine-tenths of it, or if they have started to fuel it up and then they go bust, are you just going to leave it?

Sir Jeremy Heywood: That is their problem. They do not get a penny from the UK taxpayer or the UK energy consumer.

Q421 **Sandy Martin:** We do not spend any public money on cleaning it up afterwards or anything like that?

Sir Jeremy Heywood: There would no doubt be a big legal wrangle over that, but definitely in principle it is their obligation to clean it up as well. Since they are owned by the French Government, they probably have quite deep pockets.

Q422 **Ronnie Cowan:** You say, "That is their problem." We are talking about a nuclear power plant here. It is kind of our problem if there is an issue there, yes?

Sir Jeremy Heywood: To pay for it.



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Q423 Ronnie Cowan: I am, to be honest, a little bit confused here. We are looking at a company that is clearly in a lot of financial trouble. A year ago Carillion had a pensions deficit of £587 million. Today we are hearing that those who have already received their pensions will continue to receive their pensions. The Government have backed that up. There are about 27,000 staff who are currently working for Carillion or work for them through many different versions of Carillion. Where do those 27,000 people stand?

John Manzoni: Other than the contracts that were bad contracts—which, as I say, are a few of the many and certainly in the public sector a significant minority of our business with that company was, if you like, bad business for the company—most of those jobs over time will be secured because those services, whether they are for the private sector or for the public sector, need to continue to be delivered. The question is how we manage the transition from Carillion, which has failed, and as I have made the point, billions of pounds have been lost by the people investing in Carillion. We are already being approached by lots of people to buy the business that was being provided by Carillion. I am hoping and we hope that most of the 27,000 people—actually, there are 20,000 in this country—will continue to have their pensions paid in a new employment structure.

Q424 Ronnie Cowan: There is always a danger in that position where somebody steps in and says, “Yes, I will buy your company from you, but your pension scheme is going to take a downward slide,” and people will be affected in the long term. It is a quick way of saving money.

John Manzoni: I am not sure that people think about it like that.

Ronnie Cowan: It has happened time and again.

John Manzoni: No, I think that, first, most of these jobs will be preserved, I hope, and indeed most of the welfare of those people and the pensions we hope will be preserved.

Q425 Ronnie Cowan: We have talked about the issues that were identified last July, but in the last six months Carillion has secured contracts worth £158 million servicing 230 military sites. At what point were we going to say, “Look, guys, you have to get your house in order before we start handing out more contracts to you”?

John Manzoni: Again, it is a joint venture with another company that has already expressed interest, and that is the reason it is a joint venture. In this case, we hope that that work will continue on the military sites.

Q426 Ronnie Cowan: I understand what you are saying, but it is a joint venture with Carillion, who were clearly in financial trouble.

John Manzoni: They are now. It is easy in retrospect.

Q427 Ronnie Cowan: They have clearly been in financial trouble for some



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time. There are problems within the reports from KPMG last year.

John Manzoni: The contracts I think you are talking about were around the time of the summer.

Ronnie Cowan: That is convenient.

John Manzoni: It is fact, I think.

Ronnie Cowan: It does go back to the point my friend made earlier about this sudden handout to Kids Company just before they went out of business.

Chair: Part of the joy of being a Select Committee is to be wise after the event.

John Manzoni: Of course.

Q428 **David Morris:** I am intrigued to learn more about what you have just said—that Carillion is not going to be able to take forward these projects. However, there are other companies willing to step forward to take those projects on. Would that cost the taxpayer more in the respect that there would be some kind of administrative cost for transferring the contracts across to the new company?

John Manzoni: You mean for the public sector activity?

David Morris: Yes.

John Manzoni: For the private sector activity it would be a private transaction. For the public sector activity, as I have said, it is hard to tell. Most of this is good business for the public sector. Almost all of the contracts in the public sector are good business, so it is profitable business. The question of what a new company is prepared to pay the official receiver and the administrator will be a matter of negotiation, but on the other hand of expedition as well, the receiver will want to do this quite quickly. These are good businesses. Therefore we are hopeful, and it is hard to say of course, because it is a very complex structure and it is hard to know.

There will always be the administrative burden of the team that is having to step in and replace the Carillion management team to do this. There will always be that cost. There will of course be some costs associated with what we are doing because any discontinuity like this is not for free. I am not saying that there will be no cost—there will be some cost—but I am hopeful that we will be able to minimise that cost over time. Indeed, the receiver is bound to do that; that is what their job is.

Q429 **David Morris:** Would it be possible in any way, with future contracts being awarded, that the new company that steps up to take on the new contracts could pay the administrative costs as part of the contract for taking on that particular loss in the first place?



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John Manzoni: I am sure if the receiver is astute, he or she will try to do that.

Q430 **David Morris:** But can we enforce that with it being a public contract?

John Manzoni: I do not know the detail of exactly what we can and cannot do. We have said to the receiver that our main aim is the continuity of public services. How that receiver then executes that activity—I do not know the answer legally whether we can. He is duty-bound to do this as quickly as possible, so there will be a pace versus price debate, I suspect. There is no doubt we will get into those conversations. I do not happen to know the answer to that right now.

Q431 **David Morris:** Could you inform the Committee when that advice comes out?

John Manzoni: Yes, sure.

Q432 **Chair:** How do you stop all these contracts just being scooped up by the usual suspects so that we finish up with less competition in the market than we had before?

John Manzoni: We, as the public sector, since we are funding this activity, will have some locus over that.

Q433 **Chair:** How practical might it be, in fact? Since the public contracting part of the business is quite a viable part of Carillion, is it possible for the employees to buy that part of the business and create a new player in the market?

John Manzoni: Good question. I do not know the answer to that. Some of these are quite big, by the way, which is unlikely that they—

Q434 **Chair:** Or create a mutual company to manage these contracts?

John Manzoni: Yes, all of this is possible and we will have to get into those conversations with the receiver and the special manager, which is PwC, as we go forward.

Sir Jeremy Heywood: Mr Chairman, I think this is an important area for investigation. I do not know whether your future inquiry will look into it. It is certainly something that our Ministers have asked us to look at: how we can make sure that the contractor market is not totally dominated by a small number of large, mature companies. Of course we welcome those companies, but the Prime Minister and other Ministers are very keen to ensure that we make sure that we are not biasing the system against small businesses, medium-sized businesses, new entrants. Whether it is part of your inquiry or part of the lessons learned, we will be—

Q435 **Chair:** We will certainly be looking at that, because the trends for the way Government Departments contract with small and medium-sized businesses directly is not encouraging. It relies very much on the prime contractors.



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Sir Jeremy Heywood: We have made some progress on that, particularly in the digital space, but it is definitely an area where a further prod would be welcome.

Chair: Anyway, we will continue this inquiry in due course. We will be very interested in evidence not just from the Government but from the former directors of Carillion, from the contractors, from the suppliers, from the customers and from the employees, who we hope will give us insight into how this company was run and what lessons there are to learn. I just want to emphasise that we will not be interested in a prosecution; we will be interested in helping the Government to learn the lessons from this exercise, rather than creating an atmosphere of blame and recrimination, which gets us nowhere.

Q436 **Dame Cheryl Gillan:** Can I briefly ask what is happening in the interim? Presumably there is now going to be a hiatus on all Government contracts of this nature while you have a post-mortem.

Sir Jeremy Heywood: I do not think so, no.

Q437 **Dame Cheryl Gillan:** Will the Government be signing a contract tomorrow, for example?

Sir Jeremy Heywood: John might want to comment on this, but I do not think we will have a hiatus. I do not think we could deal with that. We do loads and loads of contracts every year, as you know. We think that the system as a whole is robust. Obviously this has gone badly wrong, but ever since the profit warning we have put in place—

Q438 **Dame Cheryl Gillan:** It is not the first time, because CH2M went badly wrong as well, where the due diligence was not carried out properly.

John Manzoni: This is a failure of a private company. This is a failure of commercial activity. This is a failure of the management and companies do succeed and fail. They come and go.

Q439 **Chair:** We will come back to these issues, but thank you very much for being so open and candid with us, and indeed quite forthcoming. I am grateful for that.

On our main inquiry on civil service effectiveness, which we are close to concluding, can I also thank you, Sir Jeremy, and the civil service generally for helping us with the inquiry and helping us with the investigations and interviews that are to be conducted by Professor Kakabadse, which is now beginning to form the main body of evidence for our report? It looks in an unprecedented way at the relationship between Ministers and officials, which is what regulates and can determine the success or failure of a Government Department. We have become quite interested in the way Ministers and officials take up their appointments. What are the main challenges that Ministers face when they take office?

Sir Jeremy Heywood: Maybe I will start with this one. There are two distinct things to look at here: first, Back-Bench MPs or Opposition MPs



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becoming Ministers for the first time, so the concept of being a Minister is new; secondly, the question of when a Minister takes up a new ministerial post and the specifics of what is new about that ministerial post.

On the first, the honest truth is that the civil service does not spend a lot of time working with Back-Bench MPs or Opposition MPs in preparing them for ministerial office—we do not see that as our role as a civil service; we work for the elected Government—but the Institute for Government and one or two other organisations have sprung up to try to fill that gap. There is a gap there. There are plenty of ministerial memoirs and books that have been written about how to be a Minister and so on, but as a general question, is there a systematic training programme or induction programme for people who might at one point become a Minister? There is probably a gap in the market.

Q440 **Chair:** We have suggested before that there should be a civil service parliamentary scheme, rather like the armed forces parliamentary scheme. Everybody seems to think it was a good idea. Why do we not make it happen?

Sir Jeremy Heywood: It has just never been a priority for Government Ministers that we have worked with. However, if you want to pursue that, we can obviously look at it again with our Ministers and see whether that is something they want to take up.

Q441 **Chair:** When a Minister arrives in his or her post, what does the civil service do to help that Minister adapt to ministerial office?

Sir Jeremy Heywood: That is my second category, in a sense, which is about arriving in a ministerial post. I think the civil service would feel that we have quite a good, practised methodology. We have induction packs; we have day one briefings; we have week one briefings; we set out all the issues facing the Department at that moment; the organisational structure of that Department; issues likely to arise over a period of time; the stakeholders; suitable groups of people to meet in the first few days and weeks. That is a proven process of producing an induction pack for new Ministers. Andrew Kakabadse has made the point, I think—certainly some of your other witnesses have, anyway—that a large chunk of the training of Ministers is going to be done on the job, and there is no doubt about that.

Q442 **Chair:** He also suggests that there should be coaches, that each Secretary of State/permanent secretary relationship should have quite intensive coaching during the first few weeks and months to accelerate that process of integration and bonding. What do you think of that proposal?

Sir Jeremy Heywood: I personally do not think that is necessary in all cases. Some Ministers do choose to have coaches; some permanent secretaries have coaches. I am not aware of any coach that is in common between the two; it has just not come up as an issue. Obviously I will talk to Andrew again about it.



I do agree with him that getting the relationship off on the right footing is very important. I believe he puts a three-month timeframe around that. I would not be as scientific as that, but an independent person, whether it is perhaps the senior non-executive director of the Department—sometimes I play that role, funnily enough; not really as a coach but as a person who both sides will talk to—to try to make sure they are understanding each other's needs. Particularly if something has gone wrong, having a third party helping them with that relationship is a good thing to do. That is obviously a relatively narrow part of how a Minister settles into a Department, particularly a junior Minister.

Q443 **Chair:** But joint coaching could be regarded, rather than ameliorative of what has gone wrong, as a preventative, maintenance or introduction system.

Sir Jeremy Heywood: It could be, but all I would say is that, in my experience anyway, it has not been necessary to have coaches in many of those cases.

Q444 **Chair:** I am sure that is correct, but there are relationships that go wrong and that could have been prevented.

Sir Jeremy Heywood: To normalise the concept, so that it seems less exotic, less patronising to suggest it, that it became one of the normal things people do if there was something that was not working quite right in the relationship, having a group of trained coaches who were sufficiently aware of the difference between, for example, the business world and the world of politics and the civil service so that they could immediately bring some relevant insight to bear I think would be a good thing to do.

Q445 **Chair:** We have ended the experiment with extended ministerial offices—there was not much demand for it—but what do Ministers ask for most?

Sir Jeremy Heywood: Some Ministers do want more people working directly for them. Some Ministers say that the expertise that they have at their disposal in their Departments does not cover all the areas where they want to have challenging advice and so on, so we do have ad hoc arrangements for bringing in fixed-term appointments and so on. However, that is not generally one of the issues that people ask for.

Let me take a step back. Most of the relationships now, I would say, between Secretaries of State and permanent secretaries are excellent. There are no huge tensions right now across Whitehall—in fact, none at all, I would say. There is no constant demand to solve this problem, solve that problem, but in the past there have been issues. They are often just people getting used to each other's ways of working, information flows that they want, reassurance that the Minister's priorities are being taken fully seriously and finding the right way of demonstrating that on a real-time basis; these are the sorts of issues that have come up.

Q446 **Mrs Cheryl Gillan:** When there is a breakdown between the permanent



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secretary and the Secretary of State, what, in your view, in the past has been the cause or causes of it?

Sir Jeremy Heywood: I repeat that it is not a current issue—

Chair: Taken as read.

Sir Jeremy Heywood: Taken as read. Sometimes, very occasionally, you will get personality clashes; two human beings just talk past each other, having very different characteristics, and do not like working with each other. It is more often that they just have not established a relationship of trust, where the Secretary of State is confident that he or she is getting across to the permanent secretary what he or she really wants the Department to do. In my experience that usually is not the case, but sometimes there is a communication failure so we then have to adjust the way in which the permanent secretary reveals in real time what the Department is up to, what he or she is doing as the permanent secretary and so on, but it is a hypothetical issue at the moment, as far as I am concerned.

Q447 **Mrs Cheryl Gillan:** That is fine, but who would flag it up first? Would it be the Secretary of State or would it be the Minister? Who would they flag it up to? How would you deal with it?

Sir Jeremy Heywood: In the cases where it has happened in the past, I would say it has been the Secretary of State who has usually come to me. Obviously part of my job is to work out whether Secretaries of State are happy with their permanent secretaries. We do that in a systematic way twice a year, but just in the normal course of events I would expect to talk to Cabinet Ministers about their permanent secretaries through the year, and that has on occasion revealed that there is a sort of unhappiness. I suppose sometimes they would go to the Prime Minister, although I cannot think of any concrete example of that. I would see it as part of my role—an essential part of my role—to make sure that the relationships between the two people running Departments are as harmonious and smooth as possible.

Q448 **Mrs Cheryl Gillan:** What would your remedy be if there was a perceived breakdown of communications or lack of trust between the senior official and the Secretary of State?

Sir Jeremy Heywood: Simply to understand what exactly it is that is causing the problem and then make sure that the permanent secretary is aware of that issue, ideally get the two parties together in one room and agree on a plan, which would normally involve saying, "Let's see if we can turn this around within three months."

Q449 **Mrs Cheryl Gillan:** Would you move a permanent secretary?

Sir Jeremy Heywood: I cannot think of a case where we have done that, because it is very difficult to find a slot to move a permanent secretary to, but obviously if there has been a breakdown that over a



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period of weeks and months cannot be resolved, you would have to take that action.

Q450 **Chair:** It is quite common in the private sector to move clashing personalities.

Sir Jeremy Heywood: It is, but again it is difficult to find another role for the chief executive in a company. It is basically that if you cannot get on, then you would have to be out. Similarly with a permanent secretary, it is very difficult to find another slot for them, but of course you would have to do that and there have been occasions in the last few years where we have had to, in the end, part ways.

Q451 **Chair:** But in the civil service there is a kind of shame attached to a permanent secretary who cannot manage their Minister. Should there be that sense of failure, when it is a perfectly natural thing, in certain circumstances, not to be able to get on with somebody?

Sir Jeremy Heywood: I think shame is too strong a word. This is a theoretical conversation because there are no current examples of this and no recent examples. However, being able to manage the relationship with the Secretary of State to the Secretary of State's satisfaction is an essential prerequisite of being able to do the job of permanent secretary. If that relationship does not work, the Department will not be able to perform well. I would not use the word "shame" because occasionally these things, in a no-blame sense, just happen—

Chair: Agreed.

Sir Jeremy Heywood: —but we do have to try to find a way through in that situation.

Q452 **Mrs Cheryl Gillan:** We have dealt with the Secretary of State and the permanent secretary. What about other Ministers within a Department, when there is clearly a problem between the permanent secretary and Ministers further down the pecking order?

Sir Jeremy Heywood: Again, that is pretty rare, in my experience, and that is something we would expect the permanent secretary and the Secretary of State to have the first conversation about. You would expect that to be dealt with within the Department. I cannot think of an example, frankly, when either the Secretary of State or a permanent secretary has come to me and said, "I have a problem with this junior Minister relationship," but I guess if that happened in future we would try to deal with it in the same adult way that I have just described.

Q453 **Mrs Cheryl Gillan:** Have junior Ministers, when it came to reshuffle time, been on the transfer list because of relationships with civil servants?

Sir Jeremy Heywood: Not because of their relationships with civil servants, I would say, not in general.



Q454 **Mrs Cheryl Gillan:** You work with them whatever they are like?

Sir Jeremy Heywood: Reshuffles are for Prime Ministers, as I have said many times before.

Mrs Cheryl Gillan: That is why I said “on the transfer list”.

Sir Jeremy Heywood: It is a matter for the Prime Minister to decide how to deploy junior ministerial talent.

Q455 **Mr David Jones:** We have heard evidence that rather than present a Minister with concerns about a particular policy, some officials have found it easier to privately resist or even ignore that policy. Is that a phenomenon you recognise?

Sir Jeremy Heywood: I recognise the allegation—the suggestion—because Francis Maude and I have discussed this before when he came across, in his view, examples of this and we talked about it at the time. I believe it is very, very rare. It really should not happen. It should not happen in two respects. First, if civil servants are concerned that Ministers are making bad decisions or making decisions on the basis of bad evidence and so on, they absolutely should have the integrity and professionalism to raise their concerns directly, rather than just sit quietly. They are not doing their job as a professional civil servant if they are not giving the best possible advice.

Secondly, if the Minister has made a decision to do something, even if you disagree with it personally, your job is to get on with it. I do not believe that in general the civil service does try to quietly stop what Ministers are trying to do. I do not believe there is this culture of obstructionism. There may be one or two rare examples across the civil service and I deplore those, but that is not the civil service that I know.

Q456 **Mr David Jones:** It is, however, a perception that at least one Minister has formed. Why do you think a Minister would form such an opinion?

Sir Jeremy Heywood: I do not know why Francis has that opinion. Equally, other Ministers or former Ministers who have appeared before you have said they do not recognise it either. It is possible that a civil servant may be disagreeing with the views of a central Minister or the Cabinet Office Minister, but may be adhering very firmly to the views of their own Secretary of State, so this is an issue where one Minister’s preferences are being given higher weight than those of other Ministers. That may be the issue; I do not know. You would have to ask him again in more detail. I am not saying those things never happen. Of course in an organisation of 400,000 people doing controversial stuff the whole time, you are going to have some occasions when people do not behave in a professional fashion. That is life. All I am saying is that it is absolutely not the culture of the civil service that I lead and want and it is not acceptable.

Q457 **Mr David Jones:** Should officials feel comfortable challenging a Minister



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over permanent policy or anything else?

Sir Jeremy Heywood: I would hope so. Most Ministers that I have ever spoken to about this want civil servants to be challenging and want them to give them the best advice. Certainly what I always say to young civil servants—and indeed my direct reports—is, “You have to give your best advice and you have to be challenging,” and that is what Ministers tell me they value. Whenever I get feedback on civil servants from Ministers, I have never heard any of them say, “I don’t like this civil servant because they offer me challenging advice.” Far from it. They actually like robust debate and they like to be told if the civil service thinks they are doing something wrong.

Q458 **Chair:** They might say, “I don’t like this civil servant because he says he is going to do it and then he doesn’t do it,” or, “I have given the instruction that something should be done and then I find later that it has not been done.”

Sir Jeremy Heywood: As we have just been discussing, there clearly are one or two former Ministers who think they have had that experience. I criticise that—I deplore it. I do not think that is how civil servants should behave. I do not think it is very common; I think it is extremely rare.

Q459 **Chair:** Why do you think civil servants get themselves into that position? I would suggest that it is because generally there are mixed signals being received from different parts of the Government about what it is that civil servant should do and they find that difficult to talk about with their Minister.

Sir Jeremy Heywood: As I mentioned to Mr Jones, I think that is a possible explanation in some of these cases. An individual from a Department is being told loud and clear by his or her Secretary of State, “This is our priority” and then someone from another Department comes along, perhaps someone from the Cabinet Office, and says, “Actually, we want you to take part in this central initiative.” It is just possible that they may say, “I am going to prioritise the view of my Secretary of State over that of the centre.” That is a possibility.

Chair: Anyway, it is terrific that we are discussing it in this open and transparent way, which I do not think would have happened a few years ago. David Jones.

Q460 **Mr David Jones:** If an official feels conflicted in the manner that you have just outlined, shouldn’t that official feel comfortable raising the issue of the conflict that he or she is experiencing both with other officials and also with the relevant Minister?

Sir Jeremy Heywood: Definitely. Yes, absolutely. The right course of action in that case is not to quietly block the action, but to make sure that the two Ministers talk and resolve the dispute.

Q461 **Mr David Jones:** Of course it could be the case that some officials feel



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more comfortable about doing that than others.

Sir Jeremy Heywood: It could be, but the culture we are trying to engender in the civil service is one where there is a right to challenge and there is openness. That is definitely, in my experience, by and large what Ministers want as well. Like you, Mr Chairman, I am pleased we are discussing this in an adult fashion, but I hope the whole hearing is not going to get dominated by this, because I do regard it as a very small part of the civil service.

Q462 **Mr David Jones:** On the question of culture, which you just mentioned, surely it is also part of the responsibility of Ministers to foster a culture in their own Department in which challenge is welcomed and encouraged.

Sir Jeremy Heywood: Very much so. Yes, I think absolutely the Minister should set the right tone for that, making it quite clear that challenging advice is really important, and most Ministers do that.

Q463 **Mr David Jones:** Therefore, just to get back to a point that we touched on earlier, it would surely be helpful if new Ministers had been prepared for ministerial advice and the sort of culture that they should be encouraging within their new Departments.

Sir Jeremy Heywood: I completely agree. That is definitely something you would expect to cover in any sort of induction programme or day one briefing.

Q464 **Sandy Martin:** Very briefly, Sir Jeremy, how does a permanent secretary cope with a Minister asking them to do something that is impossible?

Sir Jeremy Heywood: Hopefully in that case they will just simply say, "That is impossible, Minister."

Q465 **Sandy Martin:** Do they?

Sir Jeremy Heywood: I would hope so. It is certainly better than trying to do the impossible and failing.

Q466 **Chair:** I had one account of a Minister who, when confronted with the impossibility of the task, said, "Why did you not tell me this before?" and the official said, "I tried to tell you two years ago" and the Minister apologised. However, we need to accelerate that conversation. How do we accelerate that kind of conversation?

Sir Jeremy Heywood: We do all the things that we are trying to do, which is to encourage a culture of challenge, openness and assurance. In projects, for example, we have far more formalised assurance processes, gateways and so on, so that we create a moment, quite frequently, where everyone has to stand back and say, "Is this on track or not?" rather than just allowing the thing to slide off. We do try to formalise some moments, particularly in long-term projects or programmes where there is a sort of dispassionate occasion on which everybody has to sit down and work out if we are on track or not. However, fundamentally this



is about a professional approach to policy advice, implementation and delivery. This is what professionalism means.

Q467 **David Morris:** It is intriguing to hear how the relationships develop in the respect that if you can see there is a problem occurring between the two individuals. How well is that tension understood? When such tensions become contentious, how do you feel should they be resolved?

Sir Jeremy Heywood: To be honest, I do not have a magic solution here. This is a case of maintaining close relationships, as I try to do, with all the permanent secretaries and Secretaries of State and making sure that there is an open discussion where people feel able to set it out if there is a problem and then trying to resolve that problem by bringing the two parties together in a non-blame environment to try to work it through. My experience as Cabinet Secretary for well over six years now has been that that approach works. I think we are in a good phase of relationships now at the most senior level.

Q468 **David Morris:** I have a quick question about special advisers. There is often another player in these relationships: the special adviser.

Sir Jeremy Heywood: Absolutely.

David Morris: Sometimes they are difficult and sometimes they are helpful. Do you have problems managing special advisers?

Sir Jeremy Heywood: The civil service does not manage special advisers. You are absolutely right that the special adviser relationship is very important. The Minister relies usually very heavily on the special advisers and it is a very sensible idea for the permanent secretary to have a good relationship with special advisers, and of course with the principal private secretary in the private office as well. Departments that work well are those in which the relationships between all of those parties are excellent and transparent and there are no secrets and so on. Again, I think we are in a relatively good phase of relations at the moment between special advisers in most Departments and the civil servants. There have been some difficulties in the past, as everyone knows, but at the moment we are in a reasonably good place, I would say.

Q469 **Dr Rupa Huq:** I want to ask about workforce planning aspects. The civil service has been criticised, I think by the NAO, in fact, for not having the information to assess its existing stock of skills and expertise. What steps have been taken departmentally to rectify this?

Rupert McNeil: The NAO report was extremely helpful for us. It came along at a time when we had already done a lot of work on workforce planning, starting in 2015 and 2016. What they pointed out to us was that we needed to be doing it at a faster pace, and in fact that is something we have been doing.

When you look at what they proposed, we have several things in process at the moment. First, there is being able to define the skills that we need



in a sensible and sufficiently granular way, and that has been hugely helped by the growth of professions and functions across the civil service. If you take an area such as project delivery, which is one of the first where this has really got underway, we have 19 roles that were defined in that area at multiple levels, the capability required for each of those roles, and then programmes, whether it is an apprenticeships or university courses to put people through them.

We are doing pilots now in a number of Departments to test this out, to integrate it with our single departmental plans. We are also making sure that we have the same common terminology across the civil service and across the professions so that we can do this civil service-wide view of workforce planning.

Q470 Dr Rupa Huq: Have shrinking numbers—because of Brexit and the new Departments, things have maybe gone up a bit—impacted your ability to do this properly?

Rupert McNeil: I do not think they have. The civil service, like all large organisations, is changing its shape. It has become less an organisation with large numbers of operational staff—there are still large numbers of operational staff, but those numbers relatively will become smaller, inevitably—and we have an increase in other areas, such as commercial skills or project delivery skills. Also, you have a better definition of some areas. One of the areas that has seen a lot of that has been the policy profession itself, which has seen a lot of definition of what skills are required and how people can progress.

Q471 Mr Marcus Fysh: I want to ask about how Departments can ensure that they have the right resourcing to match the policy initiatives that are decided to be undertaken. I know you did some work on single Department plans a couple of years ago. Could you give an update on how that is travelling?

It would also be interesting to hear your view on, for example, the 2015 defence and security review. The challenges of delivering it now are not just that the exchange rate has moved against us. There appears to have been a lack of money in the system to enable the delivery of that programme. Could you look at that example and others and compare and contrast the experience?

Chair: Shall we take the first part of that question, the general question, first?

John Manzoni: The basic hypothesis of single Department plans is a business plan, intended to bring the inputs and the outputs together, which I am not sure is happening in the way that I would like to see it happen. We are on our third iteration, getting better all the time. It needed to happen perhaps in the past, because there was more capacity than there is today to do the things that are on the docket to get done. The tighter the resources against the outputs, the more important it is to do the planning.



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We recently published a public version of the most recent plans, which was, I think, favourably received by the Institute for Government, saying it is better than the last lot. We are going to do another round now as we go into March this year and I believe that will be even better again. I do think that these things are getting better. This is a system that is not used to writing a business plan that brings financial, operational and outputs together. It does take a bit of time; you cannot instantly click your fingers and do that. I do think we are making good progress. It will continue to be important that we build our competence in this. I do think this is all good. I am not sure what else to say, other than I think the direction of travel is good. Are we there? No. But the direction of travel is good.

As for the defence review specifically—

Q472 Chair: It seems to be a classic example, doesn't it, of a policy whose ambition outstripped the resources available to it?

Sir Jeremy Heywood: I am not sure how much I can say about that at the moment because it is a matter of some internal debate and discussion. What I will say is that, yes, the foreign exchange was not helpful. The other thing I would say is that it rested upon some very ambitious efficiency assumptions about how much was to be saved through efficiency. Although the MOD has done a heroic job in many respects, if you look at the efficiencies compared with 2010, there is quite a lot of efficiency that still needs to be ground out of the system. The more John and I have looked at this over the last year, the more we have felt that MOD headquarters have not really had the capacity to drive the efficiencies.

Peter Levene came and did a very important structural review of the MOD, which led to a lot of decentralisation of authority, but the counterpart to that should have been a building up of the financial control function, financial challenge function and the relationship between the finance function at MOD headquarters and those in the frontline commands. I do not think that was properly articulated and properly implemented. The relatively new permanent secretary is basically putting that right, and as a result of that I think we will see a much stronger focus on financial control. Hopefully we can then see not just the efficiencies delivered, but will go beyond that as well. Beyond that I think it would be quite difficult to say without straying into policy discussions.

Q473 Mr Marcus Fysh: Can I follow up and ask about the extent to which the single Department approach that you just described can potentially be a bit of a hindrance and if it might be more sensible to try to take a holistic view? For example, defence procurement decisions have potentially large impacts economically on different areas of the country. To what extent do you think that it is necessary to have good Cabinet Office or other co-ordination of these thoughts, so that it is not just thought of as purely a financial decision for a Department or an operational decision for a Department?



Sir Jeremy Heywood: You are absolutely right. These big defence procurement decisions, just to take that as an example, do have profound implications for particular regions of the country, industrial policy, the Treasury obviously, and to the extent that other Departments' interests are engaged, then we would expect that to be subject to a collective discussion; it would not just be left to one Department, in theory anyway. Part of my job as Cabinet Secretary is to make sure that theory turns into practice, that if there are big decisions like that, which impinge on other Government Departments' interests, they have the opportunity to help shape those decisions. I think that by and large we police that fairly effectively.

Chair: What you are telling us about what has gone wrong with the 2015 SDSR is quite a common theme that we have drawn from Professor Kakabadse's work about how policy making can be perfect, but the implementation is lacking. Can I bring in Sandy Martin at this point?

Q474 **Sandy Martin:** Indeed, Lord Maude mentions this as well; that somehow or other there is a theory of policy making that does not seem to include the ability to understand how the implementation is going to go forward. I am sure you can appreciate that if there is no understanding of the way in which something is going to be implemented or not a sufficient understanding, it makes it extremely difficult to design the policy correctly. Do you think there is a problem in the senior part of the civil service of a divide between policy making and implementation?

Sir Jeremy Heywood: No, I do not think there is a problem of that sort. There is always a risk, whether it is in a manifesto, a budget or a political speech that there will be headline commitments made without enough prior thought being given to the implementability of those policy commitments or the timeframe over which it is sensible to implement or without, for example, a suggestion of piloting and trying out different versions. There is always that risk.

I think we are getting better and better at making it quite clear to all our policy profession, for example, that good policy cannot be developed in a vacuum, without discussion of implementation. It would be completely wrong to say that we think there is a philosophy of policy making that does not involve a very hard-headed look at the implementability of that policy. As you implied, a policy that is unimplementable is a hopeless policy. That is 101 of policymaking, frankly.

Part of the reason for John's role and for developing the various functions across the whole civil service is to make tangible our commitment to ensuring that the implementability of policy is front and centre of the policy design. I think we are making progressively good progress in bringing the commercial profession up to a level where the obvious thing for policy makers to do is involve commercial people because they are excellent people and they bring real insight. All experience tells us that unless they are consulted, we are likely to end up with a suboptimal outcome. That is true of the policy, the programme management



function, the digital function and obviously the finance function—they have always been more centrally involved in Whitehall. We are developing those functions. A progressively larger proportion of our very senior civil servants come from those sorts of functional backgrounds.

Definitely the message that John and I are giving the whole time—and the permanent secretaries know this anyway—is that you have to make sure that the policy that is served up to Ministers does take due account of these practicalities. However, I do think there is always a risk at times, dare I say it, when the civil service is less involved, when manifestos are drawn up and so on. Commitments at that point do tend to be put out into the public domain that have not been stress-tested in the way they would be in the normal course of Government, so you do still find political commitments being made that become set in stone. We then struggle to find the right way of implementing them. I hope that is increasingly the exception rather than the norm.

Q475 Sandy Martin: That may be a problem with the overall grand policy, but obviously when it comes to details of how to put that policy into practice and design an actual implementation, that is part of the policy-making process. The analogy is a little like that between the brain and the hand, where the brain needs to make the decision about whether to pick up a cup, how to pick it up and so on, but without the feedback from the hand, without knowing exactly what is going on, it is very difficult not just to get the implementation right, but to get the policy right. What is the feedback from implementation like? To what extent can you change the way in which you design policies as a result of feedback? Is the feedback there? Is there an ability for implementers to let the policy makers know what problems they are facing? Is that there?

Sir Jeremy Heywood: Not in all cases. John, you might want to respond to the Committee on this.

John Manzoni: This is a deep question. In the end, the answer to your question lies in the experiences of the people taking the decisions or making the policies. Progressively we can then therefore build. Right now we are introducing a function structure across the system. This is not a straightforward thing to do, but increasingly those people who bring specific skills of implementation at the point of delivery need to become more common, everybody needs to be more used to them being around and all of that has to happen. You cannot click your fingers, because organisations move in circles. We are in a place where increasingly graduates coming into the service today are coming in to follow commercial or technical careers just as much as policy careers, so we can be optimistic that we are going to get progressively better.

I have a role that is called chief executive of the civil service, and Jeremy has a role that is called the head of the civil service, but in my role I do not pretend to be a policy specialist. I get on fine with most of them and tell them what I think when I think they are doing it wrong, and that seems to be okay as well. The blend of those skills—and I have 30 years



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of grubby industry—bringing that into the civil service and then making it okay for other people to follow that sort of career in the civil service I think progressively helps to bring these two things together, as Jeremy has been describing.

Chair: Getting better at what we do relies upon people being able to use their experience. Kelvin Hopkins.

Q476 **Kelvin Hopkins:** There has been concern in this Committee and beyond—it has been widely noted—about the tendency of people in key positions to keep changing jobs; what we call churn. We are concerned about the loss of experience and knowledge in particular areas. I spent 23 years working in two policy institutions doing this kind of work, and having a long-term connection with a particular area was really very beneficial indeed. Are you concerned about this? Do you have any accurate data on the scale of the problem?

Sir Jeremy Heywood: It is a matter of concern. I agree with you intuitively, and Ministers raise this issue quite a lot. They get used to somebody being their expert adviser in an area and then after three years that person gets whisked off on promotion to somewhere else.

Kelvin Hopkins: Three years? That would be good. Quite long.

Sir Jeremy Heywood: I was very careful in my choice there. Yes, it is an issue that comes up and it is an issue that we have to be mindful of. If you look at the data—Rupert probably has it at his fingertips—turnover in the UK civil service is less than in the private sector. There is no sign of it increasing. It is difficult objectively to say we have a massive problem compared with other organisations. However, we are looking this year at our senior civil service salary structure, for example. One of the issues we have alighted upon is that in the environment where you have a 1% pay increase, basically the best way in which people can get an increase of more than 1% is to move jobs and get an increase on level transfer or on promotion.

In a sense there are incentives in the system for people to move around more often created by the pay policy, and we understood the fiscal reasons and all the rest of it, so we are going to try to do something about that as part of our reform of the pay system. We have also introduced something called the pivotal role allowance, to try to persuade people to stay longer, particularly on big projects. It is particularly pernicious when somebody is doing a really complicated project, if they feel they have to leave before the project reaches fruition/maturation just to get a promotion. We have basically been able to agree in very, very select cases maybe £10,000 or £20,000 for staying the course on the project, meeting certain project milestones. We are mindful of the issue.

At permanent secretary level, I think it starts at the top. I have tried to create a norm that people stay in their roles for five years; they do not dart around after two or three years. The title “permanent” secretary implies staying in your job for a little bit longer than two or three years,



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so we have tried to establish a norm at the very top that you stay in your job for five years, unless there is some major problem. In a number of different ways we are trying to address this issue, but fundamentally the numbers do not suggest we have a bigger problem than any other organisation like the civil service.

Rupert McNeil: Just to add a different perspective, if you look at the permanent secretary population at the moment, about two thirds have come up through the civil service and about half of them have spent time—not necessarily in their last role—in the Department for which they are the permanent secretary, which I think is an interesting perspective. If you look at the internal churn, we are talking here of course about internal churn of roles. Turnover is another thing, when people are just leaving the organisation or resigning. The most recent figure we have for the current rate of churn is about 11% for the senior civil service, for those roles changing in the course of a year.

Q477 **Chair:** By senior civil service you mean?

Rupert McNeil: The top 4,000 or 4,200.

Q478 **Chair:** Grade what and above?

Rupert McNeil: That would be deputy directors, directors, directors general and permanent secretaries. Last year that was just below 6%, so the internal churn has been increasing, as people have been moving roles more quickly, but I think that is as much a factor of reprioritisation—the fact that we have been able to move people around to respond to challenges that we have had in the past 12 months.

Q479 **Kelvin Hopkins:** There are other examples: the west coast main line franchise debacle of a few years ago, with staff disappearing from the Department and nobody around with the long-term memory to deal with it. One of the reasons why it went so badly wrong is because of the churn and loss of staff. Is that not the case?

Rupert McNeil: This is why the role of the professions is so important, the role of project management disciplines and having good structures for handover and retaining institutional knowledge. It is also why it is so important, through what we are doing on leadership, to make sure that people are able to absorb that through training in particular disciplines and in the context in which they are going to be moved.

Q480 **Kelvin Hopkins:** The reduction in the size of the senior civil service over the last seven years, as a result of the Government's policy to squeeze the civil service and reduce numbers, saw a lot of early retirements of very senior people with lots of experience. Hasn't that caused a problem as well?

Sir Jeremy Heywood: The senior civil service has increased in size by about 20% since 2012. That is a little-known fact. The overall civil service has shrunk by 20% but the senior civil service has increased in size by an



equivalent amount. Over the last year in particular we have added quite a lot of headcount to help with Brexit. However—Rupert was making this point earlier—we have had a fundamental rebalancing within the civil service. We have taken a roughly 40% reduction in the number of clerical staff since 2010, reflecting the onset of technology and the ability to economise in labour, but at the same time we have definitely increased the number of senior people and we have definitely increased the number of functional experts in digital and commercial, the number of lawyers, the number of project managers.

I think that is the right balance, given the challenges we face and the ability to use technology. I think that has been a very sensible thing, an overall decline and an overall reduction in cost. The civil service is still very good value for money, but within that we have managed to allocate the money for the senior people needed to help, with the judgment and experience required for the challenges facing the country.

Q481 Kelvin Hopkins: My last question is about institutional memory and the loss of it and the importance of record keeping. I understand that under previous Government—not the present one, but perhaps the previous one—that tailed off, with a lot more informal chats rather than recorded conversations. Every word we say is taken down for posterity, but it is much more important that this is done inside Government than it is in the Select Committee. Would you not think that record keeping for the long-term future written records is absolutely crucial?

Sir Jeremy Heywood: I do. I am a trained historian. I strongly agree with you. I think there was definitely a period when e-mail was coming in where we did not really get our act together and it will be a difficult period, I think, when the National Archives gets to that period, when we find that the record is patchy. We have, over the last couple of years, put quite a bit of effort into this in the Cabinet Office. I appointed Alex Allan to give us an independent perspective on it. We have had a couple of senior people working on a big project for me on this question.

I do not say we have completely cracked it, but we have put a lot of effort into trying to understand how we bring order to that mass of electronic records and how we make sure that we have the right protocols for the future using machine learning and some of these new devices that are becoming available now. That might facilitate it, but this is definitely an issue.

Q482 Chair: I am very pleased to hear that, given that our predecessor Committee raised concerns about this a few years ago. Mr McNeil, can you provide us with the churn data for the senior civil service by Department?

Rupert McNeil: I think we would be able to do that.

Chair: If there is comparative data with a year or two ago, it would be quite interesting to see what the trend is.



Rupert McNeil: I will see what we can provide.

Chair: That would be perfect. Thank you very much.

Q483 **Mr David Jones:** Sir Jeremy, you mentioned the issue of Brexit, which is obviously a huge challenge for the civil service. How confident are you that the civil service has both the capacity and the expertise to manage the Brexit process effectively?

Sir Jeremy Heywood: As you say, it is a hugely complicated, challenging project for us—probably the most complicated and challenging since the second world war. It changes all the time. For the last year we have been very focused on the withdrawal issues and getting the legislation—the withdrawal Bill—drafted and through the House of Commons and hopefully on to the House of Lords. We have started the planning work in relation to the different scenarios that might result from the negotiations or a no deal scenario. For that task, I am confident that around 3,000 to 3,500 extra posts have been on top of that work. I think we have done that to a very high standard. Most people in the country think there was a good deal done before Christmas and the work is progressing in Parliament on the legislation and so on.

Of course, as soon as you achieve all that, the next phase starts and we have been planning for that. The next phase will be, yes, continuing negotiation—in fact, a very big scaling-up of the negotiation as we move on to a future partnership—there will be a further tranche of legislation, there will be continuing intensive work with the devolved Administrations, but to a greater extent than before there will also be all the bringing the plans to a point of implementation. This is the point at which—and John is taking an ever-increasing interest in this, obviously—we need to start not just planning new systems with the different scenarios, but starting to build them, design them in IT terms, procure them in commercial terms, project manage them and so on. We move from a phase of policy analysis, negotiation and legal drafting, if you like, through to one in which we are now much more focused on turning the plans into implementation.

I would say that we are making good progress on that, but we still have quite a lot of headcount that we will have to add over the period ahead, and clearly we need to remain very responsive, depending on how the negotiations go. If we go down a no deal route, that will require X thousands of extra people. If we go down a negotiated deal of one sort or another, that might require the same number or a smaller number. We have a very real-time analysis of this that Rupert leads. John and I get reports on this every fortnight. It would be wrong to say we have every single person in post that we need for all of that phase. Equally, we have taken the view we do not want to recruit hundreds and thousands of staff in advance of need. I think we are on top of it, but I would say that a large chunk of the challenge is still ahead.

Q484 **Mr David Jones:** Of course the difficulty is that none of this is entirely in



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the hands of the British Government, because the European Union has a say in the matter as well. You mentioned going down the no deal route, but of course the no deal route may be something that we are obliged to pursue because of the intransigence or whatever on the part of the European Union. Are you confident that, for example, you have all the necessary computer systems in place to handle the challenge of a new customs system that we would need to put in place?

Sir Jeremy Heywood: I do not want to sound complacent, because there would be huge challenges with no deal. Obviously we have done a vast amount of work on the no deal scenario and that work continues. We will do it to the best of our ability, but the most important thing to understand about the no deal scenario is that a lot of the work that would determine whether or not it was a smooth transition to no deal is work that will have to be done by other countries. On the Port of Calais, for example, we can get our ducks in a row entirely in Dover, but if that is not the case in Calais then that causes some problems and some problems to the French as well, of course.

Similarly, our private sector companies will have to do quite a lot of preparation and so on. There are things external to Government, but of the things that we can control ourselves, I would say that we—I do not want to sound over-confident about this—have a very, very good grip on the issues. We go through them on a very frequent basis. I do, John does. We have a very good inter-ministerial group of Ministers that now look at this on a weekly basis, so we know what the issues are, we are working them hard. I do not want to review all the vulnerabilities of our planning position, but we are completely on it. That is what I would say.

Q485 **Mr David Jones:** Isn't the prudent approach to assume that there is a strong possibility that we will have no deal, prepare for that and then trim our course if it looks more likely that we will achieve a deal or achieve a partial deal? Is that not the prudent approach to take, that we must assume that there will be no deal?

Sir Jeremy Heywood: It is not an either/or; we plan for all the different scenarios. Ministers are very clear that they want us to plan for the no deal scenario, but also for different versions of the deal scenario, and that is what we do. Of course a lot of the planning is common to all of them. It is not the case that we do that planning for that scenario and that planning for that and it is totally different, because quite a lot of it overlaps. We do all of that and we do not prioritise one over the other. We have to be ready for all outcomes and that is what the British civil service will do.

Q486 **Mr David Jones:** Are you comfortable that the civil service can achieve a good outcome, however the negotiations progress?

Sir Jeremy Heywood: The word "comfortable" would misconstrue how difficult this is, because it is an extremely difficult task. All I would say is that we are completely on it.



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Q487 **Mr Marcus Fysh:** How well co-ordinated is the work going on in different Departments to deliver on the Brexit process?

Sir Jeremy Heywood: I would say it is extremely well co-ordinated, both at ministerial level, where we have a number of frequently meeting Cabinet Committees—some of which the Prime Minister chairs, and some of which David Lidington will chair—and also at official level, where we have multiple groups. I do not think it would be want of co-ordination; it is just the size of the challenge that is the most daunting aspect.

Q488 **Mr Marcus Fysh:** Who is in charge of the different decisions that might have to be made between conflicting approaches to the basic process that the Government might take?

Chair: Between Departments?

Mr Marcus Fysh: No, who is in charge?

Sir Jeremy Heywood: Obviously we have Cabinet Committees to resolve inter-departmental disagreements. If this is an issue about what the Government's negotiating position should be, that would come up to the Strategy and Negotiations Committee, which is chaired by the Prime Minister. If it is an issue about legislation, it will go to the Committee chaired by David Lidington. If it is an issue about prioritisation, it would probably go to that Committee as well. David Davis is the lead Minister across the whole piece, the Minister to whom the Prime Minister will look as the prime adviser. But most of these issues, if they involve an inter-departmental disagreement, would end up at one of those two very senior Cabinet Committees.

Q489 **Mr Marcus Fysh:** When it comes to trade policy, clearly part of whatever new arrangement we have with the EU relates to trade policy. How much trade expertise or trade negotiating expertise is there now helping with the process?

Sir Jeremy Heywood: I think increasing amounts, but the lead responsibility for a future trade relationship with the European Union lies with David Davis as the Chief Secretary of State and Oliver Robbins's team in the Cabinet Office, but they will then draw on the expertise from around Whitehall on the various different subject dossiers, including DIT, which have the experience now of trade negotiations globally, which is increasingly valuable expertise.

Q490 **Mr Marcus Fysh:** Has that expertise been drawn on by DExEU and/or by Oliver Robbins's team?

Sir Jeremy Heywood: Yes, I would say so, but do not forget that for the last period we have been focused entirely on the withdrawal issues, which have not been about the future trade relationship. I think they will have a progressively more important input as we move into the actual negotiation over the future trade relationship.

Q491 **Mr Marcus Fysh:** How much control of trade policy will the UK have if we



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are in a customs union with the EU?

Sir Jeremy Heywood: The Prime Minister has made it clear that we will not be in a customs union with the EU.

Chair: That is a policy question. I am meant to protect you from policy questions.

Q492 **Mr Marcus Fysh:** It was a technical question—I think A or B. The answer is none, is it not?

Sir Jeremy Heywood: Let's approach it from the other end. The Prime Minister has made it quite clear on behalf of the Government that the UK must have an independent trade policy, so that is the outcome we seek.

Sandy Martin: We are not going to deal with the Baxendale report?

Q493 **Chair:** Yes, we are, but I thought you were going to ask your supplementary on Brexit.

I will just ask very briefly two questions. You mention the expertise of the DIT. Of course, whatever is being negotiated in the trade agreement or the potential trade agreement with the EU is going to have a knock-on effect on what we can agree with other trading partners afterwards. Surely DIT has to be integrated into the negotiations concerning trade with the EU?

Sir Jeremy Heywood: Absolutely. The Secretary of State for DIT, Liam Fox, is absolutely on the key Cabinet Committee and his senior official, Crawford Falconer, will be very closely involved in the official level group underneath that, as it were.

Q494 **Chair:** The National Security Council has non-Ministers in attendance to make sure that decisions are properly informed. Shouldn't Crawford Falconer be attending the Brexit Committee when trade is being discussed, because otherwise he can hardly be described as the UK trade negotiator, which is what his role is?

Sir Jeremy Heywood: He is not negotiating the EU future partnership.

Q495 **Chair:** But it sounds like a pantomime horse then. This is a simple departmental structure point: we either have a unified trade policy or we do not. It sounds at the moment like EU trade is going to be disconnected from the rest of the trade negotiations.

Sir Jeremy Heywood: No, I do not think so. It does not follow from which senior officials are included in which meetings that we will have a disconnected policy or not. We have very good co-ordination mechanisms, and the policy towards the European Union future partnership will of course take full account of overall trade policy. Who attends the Cabinet Committees chaired by the Prime Minister is a matter for her.

Q496 **Mr Marcus Fysh:** Can I clarify that there is no one else in the Government or in officialdom who has actual trade negotiation experience



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other than Crawford Falconer? Is that true?

Sir Jeremy Heywood: No, that is not true. We are assembling a number of people who have trade policy and negotiating experience.

Q497 **Chair:** How many are in DExEU?

Sir Jeremy Heywood: I could not answer that question off the top of my head, but we do not need to have parallel streams here. We have a very good diplomatic academy, which is busily training up people to a high standard, and we will be ready when these trade negotiations start.

Q498 **Chair:** I leave that thought with you. Which Cabinet Committee could be described as the “no deal Cabinet Committee”?

Sir Jeremy Heywood: I do not think you would describe any of them as that—

Chair: Which is the one that is overseeing all these—

Sir Jeremy Heywood: The overall strategy on what our negotiating position should be and therefore, by implication, whether or not the deal is good enough is the Prime Minister-chaired Strategy and Negotiations Committee.

Q499 **Chair:** We all know that unless you have a Cabinet Committee, it is very difficult to co-ordinate across Departments. The negotiations are clearly co-ordinated across Departments by the Brexit Cabinet Committee. Where is the co-ordination across Government co-ordinated from? Which Cabinet Committee is that co-ordinated from?

Sir Jeremy Heywood: I am not sure I understand your question, Mr Chairman. We have an inter-ministerial group and that reports into the EUxT DPLD, I think it is called.

Q500 **Chair:** Is that what we call the Brexit Cabinet Committee?

Sir Jeremy Heywood: We have two Brexit Cabinet Committees: one that does strategy and negotiations, and another that looks at the legislation and domestic preparedness.

Q501 **Chair:** Where does the no deal bit fit into that?

Sir Jeremy Heywood: If you are talking about domestic preparations for no deal, it is the latter. If it is, “Does the deal that is shaping up here look good enough?” that will be the strategy committee, obviously.

Q502 **Chair:** So anybody who is trying to co-ordinate a no deal scenario has a Cabinet Committee to go to get cross-departmental decisions signed off?

Sir Jeremy Heywood: They have not only a Cabinet Committee, but an inter-ministerial group. There is an abundance of committees—they can spend all week in committees.

Q503 **Chair:** Thank you. Just moving on, obviously having the capacity to do



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Brexit is relying on the ability to bring in more people from outside. We took evidence recently from Catherine Baxendale, who did that report for the Government shortly before the last election. It was published just before the election. She still painted a pretty bleak picture, but I believe that did not fully reflect work that has been done since that report was published. Could you give us an idea of what is being done to reverse the idea that external recruits find difficulty understanding Whitehall, find the place focused on processes rather than outcomes, and that it is resistant to change? All those are complaints we have had so regularly, so what is being done to respond to that report?

Sir Jeremy Heywood: First of all, you should talk to these chaps as examples of outsiders who have come in and made an outstanding contribution—

Chair: We have not done their exit interviews yet.

Sir Jeremy Heywood: Hopefully that will be some time in the future.

Rupert McNeil: It is a critical issue, because if we go to the number of roles that we have brought in for work on the EU exit, 2,900—a third of those—have been externals. It is very important that we get this right. It is very helpful for me to come in at the start of 2016 and have a report of the quality that Catherine produced to refer to. She made 17 recommendations that covered a wide range, in terms of how we attract people and particularly how we look at induction and how we look at onboarding as well as induction. All 17 proposals have either been done or are underway. For example, she talked about a careers website for the civil service, which will be in place before the end of this financial year, and it is important that we have one of those.

The point about induction onboarding is that it applies as much for people who are changing roles within the civil service as it does for people who are coming in from outside. That is one reason why in the new leadership academy we have put so much emphasis on transitions. A transition could be someone coming in from outside or moving to a new Department or moving up into a new role. We have had 115 deputy directors move up through our base camps for people new to the senior civil service, for example. They were great recommendations and we have them underway.

Q504 **Chair:** How are you going to assure yourself this is happening across all Departments, because the system is decentralised?

Rupert McNeil: We are doing it in a number of ways. One is through the HR function, through the process of exit interviews, something that Catherine talked about and that we have certainly put a lot of effort into to make sure it is consistent, and also in terms of the way in which the experience can be managed through technology. In April or May this year we will be rolling out our new recruitment platform for Government, which is an applicant-tracking system. It allows us to make sure we have much better continuity of experience of people who are coming in. That



has other benefits, for example, in terms of getting people through the period from advert to offer much more rapidly.

John Manzoni: Could I make a slightly broader point in answer to your question, Mr Chairman? If you examine the structure of the careers and the structure of the workforce inside the civil service and you examine the structure of the workforce outside, they are quite differently structured. The very existence and build-up of a functional structure and to professions inside the civil service fundamentally changes the attractiveness from the outside to the inside. If people come from the outside with particular experiences and there is nowhere to dock until you clock whether they bring technical expertise, commercial expertise, financial expertise or property expertise, and now there is somewhere to dock, I think that will fundamentally change over time the propensity for integration from the outside to the inside.

If you look at where most of the people from the outside are coming today, they are coming into those sorts of roles. The question then is how we on the inside bring all of those experiences to bear. It is that fundamental, in my view, and I think Catherine, when she did it, was in the very early stages of what we are trying to do.

Q505 **Chair:** We are going to come to a question about how functional leadership was affecting the HR policy. What insights are you getting from the exit interviews that have been conducted with departing external hires?

Rupert McNeil: If I connect it to the point that John just made, if we look at the SCS, which is where we focused our attention, as Catherine did, the most common reason for wanting to leave is career development. I think that is true in many organisations. It is a healthy reason to leave and the challenge for us is to make sure that through progression, through career pathways and frameworks, we can show people they can do that either in their existing role or by moving into new roles in their function and profession.

Q506 **Chair:** Do you think it is getting any easier to plan people's careers so they feel they are not just taking pot luck in the open market system that the civil service has adopted in more recent years? What is the evidence that it is easier to plan people's careers and for people to plan their own careers?

Rupert McNeil: One of the main pieces of evidence from our perspective is making sure we have the infrastructure to allow them to do that. That particularly includes career frameworks linked to professions, showing what skills are required to do a particular role. If we look at the people survey, which has some interesting insights, 88% of civil servants in that believe they have the skills to do their current job, which is positive and says something about what is happening in capability building generally. But we do have to make sure that people continue to grow in those jobs because they are changing and also have the opportunity to move on in



their careers. The career frameworks the professions offer—I gave an example earlier of a project delivery profession—are a great way of doing that.

Q507 Chair: Mr Manzoni, what is your take on how this is improving or not, given you have been critical of this in the past?

John Manzoni: These things are all bound up. We have a system that was entirely consistent, which over a long period of time had evolved to a structure that was, in some senses—and you were making the point earlier—valuing a particular kind of expertise. I took the view, and still take the view, that we have to evolve that system into something slightly broader and slightly different. That is what underpins the functional structure it underpins.

But going with that is the career paths. You only change the culture in a place when you change the experiences of the people in that place. It is not that what we had was wrong; it is that what we had needs to evolve over time to encompass some other skills. We are having conversations. We have not done this, but we are about to. We are about to have a fundamental conversation about the reliance upon competency frameworks, for instance. There is a far broader suite of activities that we can look at. We can look at strength-based, we can look at delivery track record, we can look at references—we can look at all sorts of things when we put people into roles. For whatever reason, we have over-relied upon the competency framework, which is part of the system. We have a remuneration system, which encourages people to hop around, as opposed to staying and building a depth of expertise. We can change the nature of career paths inside the civil service so that we do not do that.

You cannot pick one bit of what I have described, because it is all a consistent system and it has to be evolved over time. It is not to say that it was wrong; it is just a question of where we have to go in the future. The components I have just put on the table—just some—are all part of the programme that Rupert is designing, engineering and introducing over time. We will soon be launching something that says we need to broaden into a—I have forgotten what you call it, but not just the competency framework, the strength and success profile. We need to redesign career paths for young civil servants as they come into the fast stream and up the system. As Jeremy said, we are adjusting the remuneration structures to allow people to be rewarded for staying longer in their post as opposed to moving. I think these are highly strategic issues for the long-term future success of the civil service.

Q508 Chair: What are the factors that hold up these highly desirable changes?

John Manzoni: This is a system of 400,000 people. It is a system that works and has a proud history of working in a particular way and you do not change that overnight. This is a strategic long-term process. It is not wrong; it is just a question of where we have to move to and how we have to supplement it.



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Q509 **Chair:** How much ministerial engagement do you have with this kind of desirable change?

John Manzoni: I do not know whether that is a good thing or a bad thing. Enough is the answer. They are supportive.

Q510 **Chair:** In order to fill your spare time, Sir Jeremy, we will try to encourage Ministers to take more interest in this.

Sir Jeremy Heywood: Even more interest. That would be good.

Chair: Let us move on to the functional leadership part of the equation.

Q511 **Sandy Martin:** I was going to ask about that. Just carrying on this conversation, because Lord Maude had wanted the functional leadership role to break down the departmental silos, as he saw them, and he has suggested recently that he thinks the impetus towards horizontal functional leadership has been lost. You yourself, Sir Jeremy, are on record as denying this and saying that it takes time for this movement to bed down. When do you think it will be bedded down by? How far do you think it has gone in the bedding down process and do you agree with the process? Do you believe that moving towards more horizontal functional leadership is helpful?

Sir Jeremy Heywood: Yes, very much so. This is something where we strongly agreed with Francis Maude's agenda. It took quite a long time to get it moving initially and Francis deserves a lot of credit for sticking with it. John's appointment, in a sense, was the next big step forward on that. The only difference between myself and Francis on this one is that I think he is being too pessimistic. We have made enormous strides in the last two years in building the functions and building the credibility of them, making sure they are led by excellent leaders who command authority across Whitehall. Whether it is the HR function, which Rupert leads, or the commercial function, which Gareth Rhys Williams leads—which we talked about earlier—the digital function and the finance function are now a much more prominent part of the Whitehall landscape and they are increasingly impressive. I am not going to give you a timeframe by which they are fully bedded down; it is a continuing process of improvement.

To come back to the Chairman's earlier question, one of the reasons why we have not been able to prioritise everything is we have chosen to prioritise some things. My long experience of the civil service is that unless you are quite selective about what you put your senior managerial bandwidth on, you end up not making much progress on anything. We have basically put our focus on building the commercial profession, building our capabilities in the digital sphere and talent management, in particular with a focus on diversity, and underpinning all of those things has been strengthening the functional model. John and I work closely together, but there is functional split. I lead on policy and supporting the Cabinet on policy and John leads this functional agenda. If I was trying to do both of those things it would be much less effective. Currently we have a dedicated person at senior permanent secretary level who is



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dedicated to driving the quality of the functions and has been instrumental in making sure we have been as successful as we have been, but we are only a portion of the way through.

Q512 Sandy Martin: What tensions are there with accountability to Secretaries of State and permanent secretaries of the functional model and how do you make sure it is clear where final decisions and leadership lie?

John Manzoni: I will give you a bit of experience. If you try to document a matrix structure and its accountabilities you very quickly ride into all sorts of issues. It is horribly complicated. I am a believer in having clarity of accountability, which is generally down the line. Then you rely on a different form of influence down the functional analysis and you rely on behaviours to ensure that what the line is doing is getting the best answer. Accountability 101 says I am in charge. Accountability in the advanced version says I am in charge to get the best answer and usually that means I need some help. That is where we have to get to.

There are some things we can document. Today we have one of the largest shared service centres in Europe. A lot of the costs of the fundamental running of transactional activities—whether it is financial transaction activities or human resource transaction activities—are done over here and they are done under the guise of the Cabinet Office, and ditto for procurement. Whether we like it or not, we have shared accountability. It is just that we do not choose to recognise it in that form. Of course you could document it, but it makes sense to do that. As we get better and more professional at doing that—by the way, you do not put a generalist in charge of running a shared service centre; you put somebody who really knows how to run a shared service centre. If you don't do that, it will not work.

In the early days I believe we made some mistakes in that regard, and that makes it more difficult to get to that place. We are already doing this and I think that increasingly at a senior level across these functions the functional leaders are becoming accountable. The person who is managing day-to-day the Carillion experience is Gareth Rhys Williams today. He is the guy who set it up. That is functional structure. He is operating a network across the system in order to ensure that the contingency plans are done. Had they been done in 28 different Departments it would have been very, very complicated.

Chair: Thank you. David Jones, on departmental boards.

Q513 Mr David Jones: Sir Jeremy, do you think that the coalition Government's changes to departmental boards have led to improved departmental performance?

Sir Jeremy Heywood: Yes, I think overall they have. We have some very high-quality people. In a number of Departments the boards themselves work very well and play quite an important role in improving the quality of departmental performance, but in pretty much all cases, even where the board itself does not add an enormous amount of value



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as a meeting, as it were, the individual non-execs have to know the business of the Department and play an important role. Things where the civil service has traditionally been quite poor, for example audit and risk—and certainly the Cabinet Office is a very good example of this—the Cabinet Office audit risk committee, which is dominated by the non-execs, is just 100% better than it used to be. It is a genuinely valuable part of the machinery now.

I would definitely say that bringing the non-execs in—a broader range of non-execs—has definitely been the right thing to do. In many cases the boards themselves work very well. Not all, as Andrew Kakabadse has said, but there has definitely been a significant net benefit.

Q514 Mr David Jones: Could you give any other examples of improved departmental performance?

Sir Jeremy Heywood: It is difficult to pick out specific Departments but if you were to ask the MOD or the Business Department, for example, they would say that their boards play a very significant role in helping them think through their priorities, strategies, risks and so on. In other places the contributions have been more as individuals or on specific issues. You asked me about the overall impression and that is the overall judgment I make.

Q515 Mr David Jones: Which model do you prefer: boards chaired by Ministers or boards chaired by non-executives?

Sir Jeremy Heywood: Personally, I think it is better to have the Minister engaged, because if the Secretary of State is not chairing it they will generally not be as interested in turning up. The way that Francis Maude originally conceived this had the Secretary of State chairing and there are plenty of good examples where that has worked well. I know Andrew Kakabadse takes a different view and that is something we need to continue to debate. I just worry that they will be seen as less central to the work of the Department if they are chaired by a non-exec.

Q516 Mr Marcus Fysh: Since the closure of the National School for Government, various different ways of improving skills within the civil service have been established. I think it is fair to say that some of the evidence that we have had is that that has been a bit patchy. I know, for example, that some of them are established by the Cabinet Office, some by the Treasury and some by individual Departments. What conclusions can we draw from that experience, or what would your comments be on that at this point?

Sir Jeremy Heywood: I would agree with your analysis, to be honest. It has been patchy. With these guys coming in from outside, one of the things that both of them alighted upon fairly quickly was, "Don't you need to bring this all together in a more co-ordinated way, in a higher profile way, and put more resource into it?" Hence the idea of a leadership academy, which obviously we are in the early stages of rolling out. I would say the jury is still out on whether that is going to make the big



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difference we hope for. Certainly the initial signs are good and Rupert can talk about that. I would not go all the way back to having an expensive campus in Surrey, because we are beyond that phase, but having a central focus for senior civil service leaders to come together and experience from each other case studies and how to manage difficult issues and learn from each other.

For example, we talked about commercial. I am very keen that all civil servants, even if they are not working on commercial work, should have sufficient commercial awareness or sufficient digital awareness, so having some functional modules and having a much better induction programme for people coming in from outside so that they understand Westminster and Parliament and so on, all the different things that senior leaders need to have, whatever their functional background, to be effective permanent secretaries.

Having a high-quality leadership academy with somebody in charge of that, pulling together the different strands, I think is absolutely the right idea. We are pretty much in the early stages and it partly comes down to how much resource we are prepared to put into it. That resource is not just financial resource but the time we are prepared to spend. A lot of this is about leaders teaching leaders.

Rupert McNeil: Just to build on what Jeremy said, in terms of the learning environment in the organisation, it is complex as a civil service. We have multiple things that we have to deal with and we are in the process of putting in place a much more robust structure that supports particularly the professions and what is needed by Departments. We spend in total about £600 million on training across Government in a year. When you convert that into per head—bearing in mind we have 420,000 individuals—it comes out at about £1,500 per person, which is about the UK average from the last figures that I am familiar with. When you combine that with the interesting figure of 88% feeling that they do have the skills they need for the job, that basic requirement of learning in the civil service is happening. It is happening as it should in the departmental context if you think about prison officers or policy people.

Then you get another interesting dimension, which was not there when the National School of Government was set up, which is the huge power of technology and the availability of online learning. One of the things that we are going to be deploying next month is a management fundamentals programme. This is first line manager training that is linked to the Chartered Management Institute level 3, so it is team leader training. That is going to be rolled out and made available for all civil servants and people in agencies who are using the Government's learning platform. We have a new learning platform that will be rolling out from April and May. All that infrastructure needs to be there.

Who maintains the quality and ensures that things are fit for purpose? That again is this interface between professions and Departments. The



fact that we can even do this is, I think, a great testament to the way in which the functional agenda has moved forward as well. The whole is greater than the sum of the parts, so if you take what is the shape of that learning environment, we have design authority for that, which is chaired by the HR director for the Department of Health, have representation from Departments and from functions such as finance and others on that. It is making sure that what we are doing is relevant.

If you then take it to leadership training and what we are doing with the Civil Service Leadership Academy, we put the leadership academy in the workforce plan that came out in 2016. It was launched in October. The biggest change between that and other initiatives that we have done in this area previously, even probably going back to the NSG, is a very firm commitment to leaders teaching leaders, permanent secretaries for example, leading the base camps for new deputy directors, having real experts sharing their experiences. That is fundamentally linked to the point that Mr Hopkins made earlier about preserving institutional memory. You need this type of infrastructure to do that.

Q517 Kelvin Hopkins: If I can carry on a bit, it strikes me—and you may not be able to say this publicly—that perhaps it was a mistake to abolish the National School of Government. It could have been modernised and brought up to date or whatever, but the plethora of other academies looks to me as though there might be overlap, confusion, more expense and so on. That is one possibility. But the other thing I am interested in is what happens in other countries. France, and we understand in Singapore and Australia, have very good schools of Government in one form or another. Is there not something we can learn from those areas too?

Sir Jeremy Heywood: I am sure we can. I am seeing the head of the Singaporean civil service fairly soon and that is one of the issues on my agenda to discuss with them.

Q518 Chair: I am looking at about 12 different institutional providers of learning for the civil service, including the Fast Stream Leadership Academy, the Civil Service Learning Leadership Centre, the Major Projects Leadership Academy and others, and now we have the Public Service Leadership Academy introduced in the Budget, so it seems that somebody else has had the idea that something needs to be done.

Rupert McNeil: It is a different thing. It is relevant to the point about academies, because the academies that we have are very much linked to the professions, whether it is working on projects or the finance academy or visual academy, and making sure people have the capabilities and skills that they need to be able to—

Q519 Chair: That does not seem the most appropriate way to plan comprehensive learning across the civil service.

Rupert McNeil: What we have put in place in the past year is the leadership and learning board, which is chaired by Stephen Lovegrove.



Q520 **Chair:** What would be the overarching institution that is recognised? It may not have Palladian architecture and a campus, but there needs to be something that is recognised as the authority.

Rupert McNeil: As the authority? The Civil Service Leadership Academy is the grouping, if you like, and the wrapper for that within Government. That has its three components. It is looking at, as I have mentioned, the transitions and general leadership. It is also looking at making sure people can be great leaders of multidiscipline routines. That is an important strand where these professional academies all come together. Also looking at how to work effectively in Government and the immersive learning, that is the best way of delivering that.

The interesting thing about the public service leadership academy that the Chancellor announced last year is that the civil service is only one unit within the public sector where leadership training is being delivered. In some places we are seeing some fantastic work. For example, you have the NHS Leadership Academy, obviously everything that happens within the military and the Defence Academy and the physical presence of the Civil Service Leadership Academy is the Defence Academy at Shrivenham. That is our place where we take people to be trained when we have many of our residential courses.

The idea of the public service leadership academy, which has been having roundtables this week to share experiences, is an opportunity for the people who are working and leading in those organisations to come together and to share experience and best practice. It is not duplicative. It is another example at a public sector level of the opportunity for the whole being greater than the sum of the parts.

Q521 **Kelvin Hopkins:** I am convinced that what you are saying means that some kind of university institution, with different Departments covering all the areas you have mentioned, would be the right solution, but it could also engender and reinforce a sense of esprit de corps from public servants that I think would be very important.

Chair: Over time. Thank you very much indeed. You have sat with us for a long time and we are very grateful. I feel this has been a very good dialogue and we are looking forward to drafting and presenting our report, which we hope will be of use to you.

Sir Jeremy Heywood: Thank you very much.