HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Strategic Suppliers, HC 1031

Tuesday 5 June 2018

Ordered by the House of Commons to be published on 5 June 2018.

Watch the meeting

Members present: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Caroline Flint; Layla Moran; Anne Marie Morris; Lee Rowley; Gareth Snell.

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

Questions 1–148

Witnesses

HOUSE OF COMMONS

Reports by the Comptroller and Auditor General

Memorandum on Managing Government Suppliers (HC 811)

Memorandum on the role of major contractors in public service delivery (HC 810)

Principles paper: Managing provider failure (HC 89)

Government's spending with small and medium-sized enterprises (HC 884)

Transforming rehabilitation (HC 951)

The new generation electronic monitoring programme (HC 242)

Commercial and contract management: insights and emerging best practice (November 2016)

A Short Guide to Commercial relationships (December 2017)

Examination of witness

Witness: John Collington.

Q1 **Chair:** Welcome to the Public Accounts Committee on Tuesday 5 June 2018. I am delighted to welcome John Collington. He is the former chief procurement officer at the Cabinet Office, but I also worked with him when we were at the Home Office together when he joined Government for the first time in 2007. He now works for Alexander Mann Solutions. Today, although this is a public session, we are having a fairly informal conversation about the relationship between contractors and Government, and Government skills and procurement. A lot of this relates to what happened with Carillion.

We as a Committee have had the privilege of seeing all of the papers relating to all of the main 28 strategic suppliers—Carillion, which we have published, and the other 27—and as a result of that information and other work we have done we think it is really worth probing how the relationship works. We are here to talk to John Collington particularly about his experience on the procurement side. But I should mention, Mr Collington, that Alexander Mann Solutions has just won a large contract with Government, which I think puts you close to being a strategic supplier if not yet one. Is that correct? Could you explain a bit about that, just so that we know where we stand?

John Collington: Of course, Chair. That is correct. My company, Alexander Mann Solutions, has recently bid for and been awarded a contract known as public sector resourcing, which resulted from the NAO Report of 2016, which I think was taken through this Committee and resulted in the Crown Commercial Service seeking a new solution for the supply of contractors and temporary workers across the whole of the Government and public sector. That procurement was initiated in 2017, and the contract was awarded earlier this year. We are currently in the process of implementing that solution, with the plan to go live on a phased basis starting later on this month.

Q2 **Chair:** What is the value of that contract, just so that we have got a ballpark?

John Collington: On a per annum basis, the contract expenditure is initially in the region of £600 million. That was the expenditure through the previous supplier. The name of the contract previously was CL1, and that was £600 million, which is primarily the cost of the contractors themselves. Then within that there is a small margin that the suppliers would make from that. We have been appointed as what you call a managed service provider to manage all of the provision of contractor worker and temporary labour across Government, and our plans are to implement the best practice solutions that were developed for the private sector and bring that thinking and successful track record to the public sector.

Q3 **Chair:** That neatly bookends your career—not your entire career—from 2007, when you came into Government to tackle some of the procurement issues, then in the Home Office, and through the Cabinet Office, and now you are a strategic supplier.

The first bit we are interested in is: when you came into Government, what was your feeling about and interpretation of how the relationship with strategic suppliers was then, and what has changed?

John Collington: I will go back to 2007 if I may. I was in the minority of procurement professionals brought in from the private sector at that time. The majority of Departments were operating with career civil servants in the role of procurement directors or commercial directors. So I was one of the first. I think there were two of us at the time. I was brought in after 11 years with Accenture, where I was managing procurement and supply chain on a global basis.

It was an interesting experience when I came in. A lot of best practice that was common in the private sector was not as prevalent in the Government Department as I had been used to, but with the support of the Ministers and the senior leadership in the Home Office, we were very quickly able to implement a transformation strategy. The plan at the time was to implement and operate what was best practice in the private sector within the Home Office.

Q4 **Chair:** Can you give us some practical examples of what that meant? I remember some of those old contracts being very bad.

John Collington: We were putting together, for example, a risk strategy, a risk plan, for the key strategic suppliers to the Home Office at the time.

That was something that we put in place. Secondly, we put in place the ability to transact procurement, by creating a lower cost procurement centre of excellence in south Wales to ensure that we were managing those contracts on a frequent basis, as well as looking at upskilling the procurement capability. So we were able to do a range of those activities and to start identifying the key strategic suppliers. We implemented quarterly business reviews, for example, which were not common before I joined, but that is standard business practice, regardless of what business or industry you might find yourself in. We introduced quarterly business reviews with our strategic suppliers, which started, of course, by identifying who those strategic suppliers were.

Then, of course, there is the production of management information. At that time, management information on expenditure and activity was, again, not prevalent, but we were able to implement spend management systems to be able to identify who the key suppliers were and how much expenditure we were placing with them.

That transformation effort started in 2007 and eventually took me to the Cabinet Office.

Q5 **Chair:** Of course, when you arrived at the Cabinet Office, the age of austerity was kicking off with the coalition Government. Were you able to continue in the Cabinet Office what you had been doing in the Home Office, or were there any constraints on what you were setting out to do?

John Collington: Yes, Francis Maude, at the first meeting I had with him, suggested that what we were doing at the Home Office had been recognised as best practice. We were scored fairly highly. At that time, it was the Office of Government Commerce league table ratings, the capability reviews. Over that period of three years, we were able to move the Home Office commercial function from the bottom of the league table to the top of the league table, as measured by the Office of Government Commerce evaluation criteria. So it was identified that what we were doing at the Home Office was best in class, at that time, across Whitehall, and I was then asked to join the Cabinet Office to, in a sense, work with the Minister for the Cabinet Office in the early stages of implementing the transformational strategy for procurement and commercial.

Q6 **Chair:** But this was at a time when the Government were squeezing what they were spending with some of these big contractors, because of the financial situation and the approach the Government chose to take. Did that have an impact on how you tried to build the strategy across Government?

John Collington: It did, although we leveraged some of the best practice that we had implemented at the Home Office. For example, the first job we did in 2010 was to identify who the top suppliers were to Government, by consolidating the management information across all the Departments.

Q7 **Chair:** In doing that, did you find resistance from the Departments?

John Collington: No, we did not find resistance. Some Departments had never been asked that question before, and again the production of that type of management information was not necessarily commonplace and certainly the information was not produced in a consistent format, so some of the early aims of the transformation programme were to identify the top suppliers to Government by implementing and applying on a consistent basis standard management information tracking.

Q8 **Caroline Flint:** Clearly, 2010 was a period of cuts to public services. Do you accept that strategic suppliers had to accept their fair share of austerity as well?

John Collington: Yes.

Q9 **Caroline Flint:** Was there any discussion around how their business models might be affected by that? To give a practical example, the profit margins in facilities management are pretty low; some of the charts for some of the organisations show that it is around 2% or what have you. While they may be held at that for a period, as soon as some of these cuts come in, their profit margins suddenly go down even further, and that in itself has been part of the bigger problem for these companies and how they operate. Was there any discussion at the time, with other civil servants or Ministers, about what the impact on these big companies could be? Was there any wariness and looking at some of these companies, how they operate and what the basis for their business model was working on?

John Collington: Yes. Those discussions took place when we started off in the early stages of identifying the top suppliers. It was then a case of not only looking at the expenditure across Government but looking at the annual published reports and accounts from those companies, to really start to understand what level of profit margin they were making across those Government contracts.

When the initial conversations happened, the chief executives of those companies that were initially identified were asked to come in at that point to meet the Minister, supported by his senior civil servants. Those meetings were on the basis that we were putting it to them that: "We know how you operate and what your financial position is, but you have to join us in tackling austerity. You have to come in and help us to identify where you can save money for the taxpayer through looking at your prices."

Q10 **Caroline Flint:** Thank you for that. Where in that was the discussion about what delivery outcomes the Government were still expecting? Were you expecting the same outcomes, or was there a reduction in the delivery aims?

John Collington: The challenge was put to the chief executives and the executives of the organisations. We did not tell them where to cut or where to save money; we asked them to come back to the Government with those suggestions. Not all the suppliers in the first round came back with cost savings. A number of the suppliers came back and indicated that they were there primarily in the interests of their shareholders. Our response at that time was that we were there in the interests of the taxpayers.

Again, rather than being specific in telling them or advising them of where they should look to cut, the challenge was put to them to go back and look at the margins they were charging the Government and to identify where cost savings could be made without compromising the quality of service.

Q11 **Chair:** That is the key thing—"without compromising the quality". Did you, in your risk register, build in any attempt to consider low-balling and whether that would have an impact on the service that they delivered and on the stability of the companies involved?

John Collington: Risk registers were not common across the Government Departments at that particular moment in time. When we initiated the programme to discuss the cost-saving opportunities with suppliers, we did not have a risk register in place. Risk registers were subsequently developed.

Q12 **Caroline Flint:** So what would you have been using to measure whether the expected delivery outcomes were actually being delivered?

John Collington: We would have had a conversation with the supplier and the end user and receiver of the service from the Government Department or Departments themselves.

Q13 **Caroline Flint:** How long were you there for?

John Collington: I was at the Cabinet Office for two years.

Q14 **Caroline Flint:** Did you have any sense that there would be a reduction of delivery outcomes as a result of changes to how much they were spending?

John Collington: No, not obviously.

Q15 **Chair:** Did you feel, when you went in, that there was a lot of fat to cut? Despite austerity—we will put that to one side—you would have done this anyway?

John Collington: Yes. It was on the basis that we had never before taken a consolidated Government approach to the suppliers. Each of the contracts were initiated, sourced, let and contracted on a departmental basis. The first thing that a seasoned procurement professional would do would be to leverage that expenditure and to try to leverage that purchasing power and to actually try to get better value for money from that wider range of expenditure. The point to note as well is that that really had not been done before 2010. It was very much focused on a Department by Department basis.

Q16 **Caroline Flint:** It is interesting, because obviously, the rebuttal from some of the companies may be, "We weren't being paid enough to do what Government Departments expected of us. That's why it has been unfair, and that's what has undermined our company's ability to succeed." I do not want to put words in your mouth, but you seem to be suggesting that the contracts that have been set out were probably not tight enough in terms of value for money—I am not just talking about cheapness but the delivery of the outcomes—and that their business model was a bit lax and complacent about what they were relying on as their revenue. Is that fair?

John Collington: Yes, I think that is fair. When we looked back at some of those contracts on a consolidated basis for the first time, it was interesting that we came across differences in prices. I even recall looking at one particular consultancy contract where the names associated with individual contractors were at different rates across different projects in the same Department. What we came across—this is my point on best practice—is that transparency is absolutely critical. The NAO was saying that at the time—that transparency was important—and subsequently, that was the cornerstone of the transformational efforts to develop and implement transparency in data and in contracts, but on a pan-Government basis as opposed to a departmental basis.

Q17 **Chair:** What barriers did you face? You came in as a professional. We note that you stayed only two years, although you had been in the Home Office for three years before that. Two years is not quite enough to see it all through. Did anything prompt you to leave? Was there difficulty or tension in the system?

John Collington: No. When I joined the Home Office initially, I joined as senior civil servant on a three-year fixed-term contract. I made that decision to leave Accenture and join the civil service as part of my career plan. I subsequently ended up staying for five and a half years, so I ended up staying for two and a half years longer than I had initially planned.

Q18 **Chair:** So were there any barriers to doing what you wanted to do in the Cabinet Office?

John Collington: No, I did not come across any barriers. It was bringing people with us on a journey and recognising that, in a sense, we were taking a Government plc approach of having one central body to start managing the supply chain.

Q19 **Chair:** So you cut a bit into both cost and quality. You have fairly well covered the cost bit, but to pick up on Ms Flint's point about the quality of the outcomes, how much were you examining that while also trying to squeeze the money that the taxpayer was spending on those services? Which was foremost in your mind, or how did they balance?

John Collington: At the centre, we were very much relying on the end user or the contract manager in the Department that was receiving the service to ensure that the quality would not be compromised while we were tackling the price.

Q20 **Chair:** Do you think there was the skill in the Departments to make sure that that was happening?

John Collington: At that time, in 2010, I think it was inconsistent. From an interested observer perspective, I believe that significant progress has been made in upskilling the commercial and procurement functions across the civil service over the past seven years.

Q21 **Chair:** You and I both know contracts, and we could probably name some that we have both been involved in, where the specification from Government was poor to start with—they had not properly analysed what they wanted to be delivered, so from the get-go, the outcomes were going to be skewed by that, let alone by any performance issues. Do you think that was beginning to get resolved? Do you recognise that description?

John Collington: Yes, I do recognise that description. I also recognise the fact that there used to be a tendency to rely on third-party consultants to help with the development of a specification. One of the things we attempted to address was to have less involvement from third-party advisers to overcomplicate the specification, and to actually have more qualified civil servants to develop the specification, who in a sense would have some skin in the game when it came to managing those suppliers once the contract had been managed. I remember I came up with an analysis that we spent more time on the physical procurement—the actual sourcing or letting of the contract—than on the ongoing management of the supplier. That had to change and had to be addressed as part of the effort started in the Home Office and initiated in the Cabinet Office.

Caroline Flint: You explained about the difference between your role in the Cabinet Office and the Departments for which you contract. You said it was varied, in terms of their assessment of the quality of the outcomes. Did you feel you should have been getting more back from Departments about the delivery of the services?

John Collington: I never came across any resistance. Thinking back to 2010, there was almost a united and agreed approach that we had to change.

Q22 **Caroline Flint:** But you are almost asking Departments to volunteer the information to you. For different reasons, quietness or silence might not say that it is being done.

John Collington: The main difference was that when Francis Maude was appointed as Minister for the Cabinet Office—I can only then compare this to the three years I spent at the Home Office—he really took procurement and the ownership of procurement to a new level that had not been seen before. Where in the past it would have been a request to a Department to supply that information, Francis Maude made it quite clear that it was no longer a request, but an expectation that Departments would honour those requests.

Q23 **Sir Geoffrey Clifton-Brown:** In answer to the Chair's question, you said that when you arrived as the first chief procurement officer in 2010, you had to change civil service culture and you took them on a journey. Are they still continuing on that journey, or has the journey ceased?

John Collington: I believe that they are still continuing on that journey. I make that statement based on the number of people who have come into the civil service from the private sector. It is probably more than 50% that have come in from a wide range of industry. The calibre of commercial directors now is higher than it was when I joined the Home Office in 2007. In addition to that, I read with interest what the Cabinet Office have done to support the development of career civil servants through capability assessments and professional and continuous development. I think it is a really positive story, when you look at some of those civil servants who have been in the civil service for many years, who have actually transformed their careers and moved on and up through the civil service as a consequence of their ability to deliver. It is a stronger civil service from a procurement perspective in commercial management now than it was when I joined.

Q24 **Sir Geoffrey Clifton-Brown:** Do we need to have more permanent secretaries who have commercial procurement experience?

John Collington: I think it would help but, again, in my experience, I never came across any resistance from my interactions with permanent secretaries. Sir David Normington and Ian Watmore were the two permanent secretaries that I worked very closely with. There was never any lack of support in my dealings with them. The development and investment in the commercial community, in my view, is there, particularly within the directors general for commercial and finance. That being the axis, you wouldn't necessarily have to have more commercial skills at the permanent secretary level, in my opinion.

Q25 **Sir Geoffrey Clifton-Brown:** Did you set up the RAG risk system and the Crown Agent systems?

John Collington: No. We initiated the crown commercial representative process when I was there. The process of identifying and managing risk across those strategic suppliers was initiated in November 2012—several months after I had left the Cabinet Office.

Q26 **Sir Geoffrey Clifton-Brown:** In this particular session, we don't want to over-concentrate on Carillion, but presumably you followed these issues from a disinterested interest, if you like. Was it a surprise to you that, after the profits warning in July, which after all wiped out the entire balance sheet of Carillion, it took the Government six months—although it never did—to effectively put or recommend to Ministers that it be put in the highest risk rating?

John Collington: Yes, I was particularly surprised when I read the annual reports and the initial papers. Proactive supply management has to continuously look at the financial and trading performance as well as the performance of the supplier delivering the service to the end user. Those two go hand in hand. The NAO Report and the best practice guidance on contract management clearly states that that is the case. I don't know the reasons why that was not escalated or, in fact, when it was recommended to be a higher level of rating, why it was subsequently reduced.

Chair: We know that the NAO Report has been laid to Parliament, so it will be published very soon.

Q27 **Sir Geoffrey Clifton-Brown:** Going back to one of Ms Flint's questions, I don't know whether it was the case in your day with the strategic suppliers, but a number of these strategic suppliers who now have very weak balance sheets are bidding for these strategic contracts with wafer-thin profit margins. Did you ever say to any of those suppliers: "This level of profit margin is unsustainable"?

John Collington: No, I would never say that as a procurement professional. I think it is up to the supplier to identify whether they can make their targeted profit margins from the contract that they choose to bid for. If they don't believe that there is enough profit margin for them to operate a commercially viable solution, I frankly would not expect them to bid for that work.

Q28 **Caroline Flint:** Surely you would have to test out what they are saying, because anybody could come along and say: "Oh yeah, we could do it for this amount of money". If you look purely at the lowest cost, you are going to go for those costs. Where is the value-added in that? Where is the interrogation of whether what they are saying is true? We have just seen that with the franchise contracts.

John Collington: I think the valuation criteria have also changed. The valuation criteria used to be predominantly based on price. Price is still a material factor in evaluating a bid. As well as that, it is always the quality of service. The Government had an evaluation criteria of 70% quality and 30% price for the contract that Alexander Mann Solutions has just won. That is another example of where quality has increased its focus over the last number of years.

Q29 **Chair:** So who is making the judgment on quality? Presumably it is the Departments, not the Cabinet Office, because they would have the most experience.

John Collington: No, it would be the end users.

Q30 **Chair:** Were they good enough at doing that?

John Collington: Again, they have developed skills, from my observation. Certainly, with the procurement that we have just taken part in, it was impressive to be a supplier. As a new supplier to Government, it was an impressive procurement won by Crown Commercial Service delivered within the stated timeframe, very thorough and very transparent where we were managed at every stage of that particular process. My experience as a supplier on the other side would be one where I would be complimentary to the procurement process we have just gone through. It is not just all about price.

Q31 **Chair:** Complimentary is all very well, but were you—frightened is not the word—did they keep you on your toes as a bidder?

John Collington: Yes, absolutely, we were kept on our toes. The level of continued focus and perseverance and attention to detail was significant through that process, as it is through the implementation of the contract, as it will be for the continuous management of that contract, once it goes live.

Chair: Not like some of the old Home Office ones then.

Q32 **Sir Geoffrey Clifton-Brown:** I am curious not just about the strategic suppliers, but the suppliers below those that each Department manages. When you took over the job as chief procurement officer and presumably looked at the whole of Government procurement, did you find—this is what we seem to be finding as a Committee—that each Department was not learning the lessons of mistakes of their procurement process from other Departments? What did you do about that?

John Collington: Again, if I look back, yes there was that case pre-2010. It was as if the commercial directors across Government Departments were in competition with each other in some cases. When I was first appointed, the often-used word was "collaboration" as opposed to coercion or alignment. That was more prevalent pre-2010.

From that moment and from the creation of the Government procurement function and commercial service, there has been much more of a focus. I think that was changed even further through the alignment of each of the commercial directors to report directly to the Government's chief commercial officer. That was not the case when I was there, but it was something I had recommended to Francis Maude at the time. That was something that subsequently took several years to make happen—I think that is a good thing.

Q33 **Sir Geoffrey Clifton-Brown:** Were the codes of prompt payment—both Government as strategic suppliers and strategic suppliers to SMEs—in place when you were there, or did you put them in place?

John Collington: No, that was in place. It was in place under the previous Administration prior to 2010—under the Government's prompt payment code of conduct, where we were endeavouring to pay all suppliers within 30 days.

Q34 **Sir Geoffrey Clifton-Brown:** Were the two different issues—payment from Government to suppliers and suppliers to SMEs—working when you were there?

John Collington: When we started the challenge at the centre, for example, at the Home Office I was able to track and report payment terms. I was able to set up account payable systems to measure prompt payment. It was not common across Government at that time, despite the fact that there was the prompt payment code. One of the first things we did in early 2010 was to initiate the ability to track that data and measure the performance of Departments in paying their main contractors and then the subcontractors within the terms of the code. That was quite an effort to get all Departments able to produce that information. For instance, at that point some Departments had not even identified—or didn't have the ability to identify—SMEs within their first level of supply chain.

Q35 **Sir Geoffrey Clifton-Brown:** It seems as though the mechanism for Government to pay strategic suppliers is working reasonably well. From our evidence, what is not working, it seems—particularly in light of the Carillion case—is payment of those strategic suppliers to SMEs particularly. Indeed, we found the reverse: that SMEs are having to discount their invoices in order to get prompt payment. That is against the code. In the light of that evidence, do you think that code needs to be given greater teeth? Does it need to be made mandatory?

John Collington: I would suggest so, yes. As an interested third party, one of the things I have learned in working for Alexander Mann Solutions is that it is a very well-managed company. We manage our invoices and payments very well. Two critical measures are your debtor base and your creditor base. Those are two performance indicators that should be applied to all strategic suppliers and then throughout the supply chain as well. It is a worry if the supply chain is not being paid or you start to see payment terms of creditor days of 110 or 120. I don't think that is fair.

Q36 **Anne Marie Morris:** That neatly takes us on to corporate governance, because that is part of the whole picture, if you like. At the moment the Government are not constrained—there is no requirement for the Government to perform in accordance with corporate governance, social responsibility and so on. Likewise, some of your suppliers to the main supplier will say, "I am not required in most cases to comply with the best practice rules and regulations". Given that this is all about the different parties treating each other with respect and getting the best deal, even though they are motivated by different things—private companies by shareholders and profits, Governments by value for the taxpayer, the electorate and so on—is there an argument that trying to get better corporate responsibility and better corporate governance into the whole length of the private sector and within the public sector would make some difference?

John Collington: Yes, I think that is a good suggestion in terms of the quality of governance that is in place to manage all suppliers. I can only speak from my recent experiences of having won a major contract, but the level of governance has been quite clearly articulated through the procurement process, so we as a new supplier to Government are going into this relationship with our eyes wide open, knowing what governance channels will be in place. I would suggest that that is best practice in relation to managing suppliers on a contingency basis.

Q37 **Chair:** When you were chief procuring officer, did you look at the governance of a company—was that part of your risk assessment?

John Collington: Yes. When I was at the Home Office, that was one of the things we did, which we then took forward into the Cabinet Office. The ability to look at the governance arrangements within each organisation and to understand the level of cost—because there are also ways to interpret financial accounts, whether that be the income statements, the balance sheet or the cash flow. That training should not expect commercial professionals just to read parts of the annual report, which would be the directors' sustainability statement or the auditors' statement, but actually have the ability to interpret the financial accounts as well. They should then be able to comment appropriately in the governance process and challenge suppliers in that regard.

Q38 **Anne Marie Morris:** With regard to the sub-suppliers of the main supplier, and following Sir Geoffrey's comment, you say that you endeavour to ensure that the prompt payment code is de facto implemented. The prompt payment code is only part of the whole piece around corporate governance.

What could, or should, the Government require of the chief supplier in terms of what it does in its ongoing relationship with those sub-suppliers? That is often where it goes wrong and—dare I say it?—occasionally the main supplier will say, "We use X, Y and Z, because they are the experts," and then it is cheaper for them to do it themselves, so they don't. The quality tests you did when you brought them in have fallen by the wayside.

John Collington: I would suggest that, as part of the formal quality quarterly business reviews, payment and payment performance should be a key part of the analysis. I think the suppliers should be compelled to share that information with the managing contracting authority.

That information should be communicated because, again, it is transparent. Sometimes it is not clearly communicated within the annual reports but you can find that information by looking at those creditor days and the average length of time it is taking. That should give the managing contracting authority another indicator that perhaps things are not as good as they might be.

Q39 **Anne Marie Morris:** One can look broader than that, can't one? It is not just about late payment. There is also the issue of risk management. My question is: to what extent should the main supplier be responsible for ensuring that, down the supply chain, risk is managed—not just monitored, but actually managed? Otherwise, the whole contract is at risk, which we have seen in other Government contracts.

John Collington: Again from my experience, the prime contractor should be responsible for ensuring the payment of their suppliers under the terms of the contract.

Q40 **Anne Marie Morris:** And also to look at risk, because risk is not just about money.

John Collington: No, of course—and continue to look at the risk.

Q41 **Anne Marie Morris:** Would it be appropriate for a Government to set a requirement and obligation as part of the contract that the head supplier does that?

John Collington: Yes, I would suggest so.

Q42 **Anne Marie Morris:** Right. May I now turn to SMEs? They always have found it a great challenge to contract with Government—partly with the red tape because they do not have the resource or manpower and so on—yet there is a desire to include them because, if we did, we would get more, if you like, of our own nationals involved.

We have got some very clever companies that just never can get anywhere near a Government contract. Despite all the promises from Government, we do not really have many contracts with SMEs. Why is that? What do you think has to change to make that difference?

John Collington: Again, speaking from recent experience of my company, Alexander Mann Solutions is a mid-cap company that has never bid for or won Government contracts but we have been encouraged by what we have heard.

Q43 **Chair:** Yes, but you are rather a useful asset. If you are going to bid for a Government contract from that basis, having the former head of procurement from the civil service is probably quite a good move.

John Collington: I think, therefore, that some SMEs are sometimes frightened to bid for Government work because of its complexity or the risk and challenges associated with it. Any supplier has to evaluate carefully if they want to be a supplier to Government and bid for it accordingly.

That is one dimension. The other dimension that I recall as well is that there were SME targets in place when I was there. I think we had successfully increased the percentage of business that was being channelled to SMEs, not only in the supply chain but as primary contractors.

That improvement happened during my tenure at the Cabinet Office. When I was at the Cabinet Office and attended conferences by the FSB I would say to people, "Look, have the courage to bid for them. Have the courage to bid for some of these Government contracts and back yourself to win them."

Q44 **Anne Marie Morris:** But inevitably, if someone is just doing the number-crunching, even if a number of SMEs get together and put themselves forward as a group, generally Governments find that much too difficult to deal with. They don't want to get involved in doing the scrutiny and they certainly don't want to manage something that is lots of little bits, or, as you said, one main strategic supplier that is relatively small.

I hear what you say and I'm sure it's what a Minister would say to me, but the realpolitik is this: is it going to happen, because it is so blooming time-intensive to manage that relationship?

John Collington: Interesting. The only Crown Commercial Service representative who I spoke with during the procurement process that we have recently been party to was Emma Jones, who is the Small Business Crown Representative. We actively sought out the Crown Commercial Service representative for SMEs to get her input with regard to how we could structure our bid accordingly.

Q45 **Chair:** That post was vacant for quite a while, I recall. To pick up on the point made by Ms Morris, and with your hat on as a Government procurement expert, wouldn't it have been much harder for you to have broken down some of those large contracts and let and managed them with a number of SMEs instead of one large contractor, whereby you can just deal with one organisation?

John Collington: It depends on what was being bought. If what was being bought was a large capital project, it might be difficult for the SMEs to bid for it, or to have the financial backing to do so. However, I think it's important that each of the prime contractors, regardless of which contract it is, are set the challenge to include SMEs within their supply chain. That is perfectly able to be done and I think it is the right thing that prime contractors are actively encouraged to partner with SMEs as part of their solutions for Government. We have done that with our contract.

Q46 **Anne Marie Morris:** It sounds good, but in practice, it is not delivering, despite all the good words from Government. I'm not entirely convinced by your argument, but we are short of time.

Can I then turn to the make-up of Government? I will be quick, Chair. We talk about it being a position of contracting with one monopoly. It's not, is it?

John Collington: No.

Q47 **Anne Marie Morris:** It's a make-up of little Departments. The challenge is that you contract with the central procurement team and you push it out to Department X, or even to Departments X and Y, to manage it. What is the connectivity and the communication between the centre and those Departments once it goes out, because unless there is some connectivity and ongoing communication between the Departments, never mind with the supplier, it's all going to fall apart, isn't it?

John Collington: It could fall apart if it isn't joined together and kept together. Again, from recent experiences or from experiences we're going through, you're absolutely correct. You bid for the contract with the main contracting authority—in this case, Crown Commercial Service—but you've then got to initiate call-off contracts with each contracting authority that wishes to do business with you. We are currently in the process of doing that today.

However, that does make doing business with Government more complex than it would be, say, with a private sector client of equivalent size, but you just have to be aware of that at the start of the process and make sure that you're equipped with the right level of resources to manage both the relationships with the Departments and the relationship with the main contracting authority.

Q48 **Anne Marie Morris:** But then there is a relationship between the Departments and the procuring centre, and that's the bit that I don't think works. Would you agree?

John Collington: I have no recent opinion to comment on that, other than the experiences that we are going through at the moment, which are that it is working with Crown Commercial Service and each of the main Departments.

Chair: Okay. We will have other witnesses on that.

Q49 **Lee Rowley:** Do you think there is still a material difference between how Government procures and manages contracts, and how the average private sector operator does that currently?

John Collington: I believe from experience that there was a significant gap between how the private sector sources contracts and how Government used to source contracts. I think that gap has been reduced and my company bids for a lot of work, and we are successful in winning work. And I would say that there is very little difference between private sector procurement and public sector procurement.

Q50 **Lee Rowley:** Negligible difference?

John Collington: Negligible difference now—that would be my opinion.

Q51 **Lee Rowley:** On that basis then, what level of inefficiency, failure and inadequacy in public sector contracts should Committees such as this one accept, on the basis that presumably there is some level of inefficiency and inadequacy in the private sector? I used to help to run private sector contracts for particular companies. Some of them are pretty bad, so should we expect and allow for some stuff not to go well in the public sector? In your long experience, what would it be, materially and quantitatively?

John Collington: I believe that there has to be a focus on the continuous process of contract management set at the outset of the procurement. Regardless of whether it be private sector or public sector, the success of that contract in achieving its strategic aims will be determined only by the quality of contract management from the buying entity, and of supplier management from the supplying entity. Both parties have to be absolutely clear in what is required at the outset.

Q52 **Lee Rowley:** I get that—I think that's a given. I want to go one step beyond. We do not live in a perfect world. We know issues will happen. There are people underneath all these processes. What would you, in your long experience, all the way from Accenture to now, suggest in an average industry? I know the public sector is not an average industry. You should be saying to us, "Guys, you know what? Actually, sometimes things are going to go wrong, and they go wrong at this kind of level, in these kinds of places, with this kind of magnitude." What would be your statement to us on the public sector?

John Collington: My statement would be that there has to be more focus within that contract on risk management. Risk management should be taking a view of identifying the potential for failure in that contract. An appropriate risk treatment plan should then be developed.

Q53 **Lee Rowley:** You are describing processes of how to mitigate. I would like to understand the quantitative view of what we should expect to see. Not what we want to see, or what we would accept, but what a roughly average expectation around this would be.

Chair: Hard question, but you can cross the different sectors you have worked in.

John Collington: Of course, it's a hard one. If you are not equipped to develop a risk plan and a risk treatment plan, and to anticipate where things might go wrong, I would expect that the chances are higher that things will go wrong. If you do the job to the best of your ability to identify where it might go wrong—learning from lessons in the past, and making sure that risk is just as important as value for money in that contract—I believe that risk can be mitigated. It is difficult for me to put a figure on that if the effort is put in up front.

Q54 **Lee Rowley:** Give me a suggestion in an industry that is so far removed from today. When you were working in Accenture years ago, you went into X industry—don't name it. Roughly what percentage of contracts were dysfunctional? You define dysfunctional.

John Collington: Gosh, now you're going way back.

Q55 **Lee Rowley:** I am asking for an anchor. I am asking for what good looks like in procurement, as opposed to perfect. If we pursue perfect forever, that will not get us very far. I want to understand what good looks like.

John Collington: What I would say categorically—again, we are doing this in my existing organisation—is that risk management in the supply chain is much more important and relevant now than in the past. If you take that approach proactively to identify all elements of risk where that contract might go wrong, and all of that is considered at the outset of the contract, and equally the supplier develops a risk treatment plan thinking where the contract might go wrong, having that level of transparency up front will go a significant way to mitigate and eliminate risk. It is not perfect, but it is difficult for me to put a figure on that.

Q56 **Lee Rowley:** Two other points. In an ideal world, when you are advising your clients, or when you were advising your clients over the past X period of your career, what kind of level of market would you want to see in terms of supply to make a set of contracts work? How many people would you want coming to the table? What level of experience would you want to see? My other question was going to be: is the public sector market broken?

John Collington: On the first question, can I just double-check? Are you asking how many bidders I would like to participate if I was running a procurement?

Q57 **Lee Rowley:** Yes. Just an indication of what a good market looks like for the procurement of large-scale contracts in an industry. I know it is very difficult to answer the question. Five people coming to the table or 50 people? People who are very engaged or people who are not? People who offer open book or people who do not? A great variety?

John Collington: I am a great believer in the open procedure and in making the first stage of a procurement process as open as possible to a whole range of suppliers. Through the specification I would quickly get that to a longlist, and from that longlist of, I would suggest, between eight and 12 suppliers, through a process of evaluation and elimination, very quickly get to that shortlist of three. I would endeavour to keep three shortlisted suppliers or bidders in the procurement process as long as I possibly could.

Q58 **Lee Rowley:** In your time as chief procurement officer, how often did that occur? How many times did you see, in these large contracts, 20-plus people coming in at the beginning, longlisted down to eight to 12 and then shortlisted down to three? Was that conventional or unconventional, usual or unusual?

John Collington: It was less conventional than it is now.

Q59 **Lee Rowley:** So it is more likely today that you will get a proliferation of bidders on large contracts?

John Collington: I believe it is more likely today that there will be a wider range of bidders for those contracts.

Q60 **Lee Rowley:** And does that make the market more effective, in your view?

John Collington: I believe it does. If the market is opened up, which was the intention a number of years ago, to try to spread Government contracts beyond those major suppliers that have the majority of those contracts, that is a good thing. It is a good thing that new bidders are encouraged to bid for Government work—not enticed in any way, but encouraged to bid for them in fair, open and transparent processes—to bring that level of innovation in other sectors to the benefit of the Government.

Chair: Mr Rowley is just winding up.

Q61 **Lee Rowley:** Last question: if you had all the money and power in the world, given that you say that there is now no material difference between private and public sector procurement, where would you take the procurement industry and procurement practice as a whole? Where would they go next? What is the next level of development to make this industry work better?

John Collington: I would invest in insight-led supplier intelligence. The amount of information that is publicly available on suppliers, bidders and new suppliers is incredible in comparison to what it was when I started off 10 years ago at the Home Office, and before that at Accenture. That information is publicly available, but how are Crown Commercial reps or commercial directors in Departments accessing that readily available information as intelligence and insight to help them to manage supplier performance better? If I had my time again it would be more focused on risk management, as articulated through the NAO best practice guideline, but to manage risk you need insight and intelligence, and that is what I would do.

Caroline Flint: I want to come back to the question of innovation. If you just have these massive companies that have a finger in every pie of every Government contract, is there not a problem that they suppress innovation if they are all bundled up into these large contracts all the time? Is there not a danger of that?

John Collington: There is a danger of that, and that is why I would do everything in my power to open my mind to innovation coming from SMEs, mid-cap organisations and successful organisations that are delivering to the private sector, and to avoid the situation where doing business with the Government as a supplier is almost a closed shop. It is incumbent on commercial directors to open their minds to what is happening in the private sector.

Q62 **Caroline Flint:** Have you any sense of that happening?

John Collington: One of the things I advocated back in 2010 was the concept of pre-procurement market engagement. You don't wait until you launch the procurement to engage with the supply market. It is okay, pre-procurement and pre-contract, to engage with the supply chain and encourage the supply chain to come with innovative ideas. Again, from experience, from this side of the Alexander Mann Solutions public sector resourcing contract, that is exactly what the Crown Commercial Service did. It embarked on a series of pre-procurement market engagements that were open to all potential bidders to come and share their ideas on what is working in the sectors that they service to Government. That then formed part of the specification that resulted in the procurement. So I think it is a good thing.

Q63 **Sir Geoffrey Clifton-Brown:** Can I press you on the answer you gave to my colleague, Mr Rowley, about the plurality of bidders? Given that there were only 27 strategic suppliers—

Chair: Well, 28—

Q64 **Sir Geoffrey Clifton-Brown:** It was 28, now it is 27. For a particular type of facilities contract, you can almost guarantee the half dozen or fewer bidders that there are likely to be. I am surprised to hear you say that there are more bidders for these types of facilities contracts today than there were when you were in office in 2010-11.

John Collington: I apologise, Sir Geoffrey. I was not being specific to a sector type such as facilities. I do not have any recent knowledge to comment further on whether that is the case or not.

Q65 **Sir Geoffrey Clifton-Brown:** Right. Were you in post with the patient records IT contract?

Chair: It doesn't appear so.

Sir Geoffrey Clifton-Brown: No, it's not ringing any bells.

John Collington: No.

Q66 **Sir Geoffrey Clifton-Brown:** That was not as a trick question. We have concentrated today on the procurement process, the management of the contract and the quality outcome. However, on the maxim that if you put rubbish in, you get rubbish out—if you do not design the contract properly in the first place—what did you do to try and ensure that the individual Departments had, first, thought about the objective they wanted to achieve from this contract and, secondly, given you accurate information on which to write a contract? What did you do about those aspects?

John Collington: Personally, I would try to avoid overcomplicating the specification, to start from a perspective of understanding what the policy set by Government was, what the output required was and then try and develop the specification as simply as possible, avoiding overcomplexity. The simpler the specification, the easier it is to contract. That obviously goes without saying. On some occasions, overcomplication of the specification is to be avoided where at all possible.

Q67 **Sir Geoffrey Clifton-Brown:** Can I try the two questions again? We have had some evidence to say that, particularly in IT contracts, in thinking about that contract, the Department has not thought about the objectives it wants to achieve. This is particularly in IT contracts, because it is moving so quickly. Did you find that was a problem and how did you focus Departments' minds on the objective they wanted to achieve?

John Collington: Yes, that was a problem if the technology specification was left purely to the head of IT or the chief information officer. Again, best practice—and I speak from experience in both the Home Office and the Cabinet Office—is that it should not be a single or isolated decision. It is best done almost as a group of individuals: the chief procurement officer working with the chief information officer and then their subsequent colleagues beneath them to identify the most appropriate specification, but always—with the end user in mind—what is this contract designed to do?

Q68 **Sir Geoffrey Clifton-Brown:** So you were helping them with that. The other part of that question, and I use the example of the Nuclear Decommissioning Authority, which, according to the evidence we had, did not know the state of some of the facilities on which it was letting the contract to decommission them. The net result is that the taxpayer lost more than £100 million. Did you have a problem with Departments not giving accurate information on which you wrote the contracts?

John Collington: Initially, going back to 2010, it was a challenge to have access to that information. The information was not readily available and it was a process of gathering that information to support the setting of strategy for the various procurements we had. Obviously, I cannot comment on the nuclear decommissioning case specifically, but again, as a procurement professional, I would find it disappointing that the commercial function is unaware of the extent of some of its contracts. That would be bad practice.

Q69 **Chair:** This is something that has come up repeatedly on this Committee: that the procuring Department has provided data that is poor quality. For some reason, the private sector bidders regularly believe that it is good data because it is from the Government. There seems to be a bit of a chain here. The Government are surprised that they did not do some double-checking themselves. So there is a vicious circle of bad data about what it is actually happening: the number of windows in a building, the number of facilities that need improving and what needs to be decommissioned. It is a repeated issue. Did you see that clearly at the time when you were in government? What was it like when you went through your most recent procurement process when you won the contract with your new hat on?

John Collington: I suppose, to an extent, this refers to before I joined the Home Office. One of the things we initiated in the company I previously worked for was ensuring that you had quality management information in order to make informed decisions as a procurement professional. I then joined the Home Office, and some of that information to a certain extent was missing. That is why the right thing to do is to ensure that you are not just relying on the suppliers' information, and that you have set in place the ability for you to produce data independent of the supplier. To some extent, if you rely purely on the supplier, the supplier may tell you exactly what they want you to hear, not what you need to know.

Q70 **Chair:** When you bid for this contract that you just won, did you feel that you got good information from the Government?

John Collington: Yes, we got very good data from the Government throughout the process. Where the expenditure changed over a period of time, we were updated with the latest expenditure.

Q71 **Chair:** What due diligence did you do as a company to make sure that it was good data?

John Collington: We verified that with the contracting authority as well as with the major authority. Information was produced by the Crown Commercial Service to tell us how much the DWP were spending, and we would then verify that directly with the DWP.

Chair: All this is work for Government Departments, which may not be wildly enthusiastic about taking you through their bad records to find the data you need.

Q72 **Sir Geoffrey Clifton-Brown:** Having been the Government's procurement officer in 2010 and 2011, having seen the procurement process from the Government's side of the fence, and having now just bid for and won a very big contract from a private sector perspective, what recommendations would you make to the Government as to how they might improve the procurement process?

Chair: You touched on some of it in your answer to Mr Rowley about data and analytics.

John Collington: The reason I am hesitating—

Q73 **Sir Geoffrey Clifton-Brown:** You don't want to give too many secrets away?

John Collington: I do not want to contradict the fact that I have said I thought it was an exemplary procurement process that we experienced and benefited from. The one thing I would suggest Government Departments do is get to know those bidders more than the quality of the bid itself. Sometimes there is a reluctance from people in Whitehall to come and see the suppliers, what they are planning to deliver, and where they are planning to deliver it from. Being a procurement person at heart, I would never buy a car without checking it out, kicking the tyres and looking under the bonnet. I might not know what I am looking for but at least I would go through the process of doing that. It is something that could be done, and almost made a compulsory part of the procurement process.

Chair: It is interesting that you say that. When I was a Home Office Minister, I was encouraged not to meet potential suppliers. Some civil servants were nervous about me ever meeting potential suppliers in case it contaminated decision making.

Q74 **Caroline Flint:** But that is what your final point seems to reinforce. It reinforces the perception that—across Whitehall—looking at the delivery of services in situ and looking at what is happening is not really happening the way it should be. The Cabinet Office looks at the money, and the users—the Departments—are meant to be the voice of the end user: are the toilets clean? Is the food good wherever it is? Facilities management has been a particular issue in this area. We can't be confident that that sort of hands-on looking at how these organisations are working and what they are delivering is really happening. Can the Cabinet Office actually believe what it is being told by the Departments?

John Collington: My recent experience is yes, because I am coming across a much more joined-up process. Crown Commercial Service, operating on behalf of the Cabinet Office, are doing their job, but working hand in hand with the contracting authorities or the Departments. My recent experience is that that is working.

Q75 **Chair:** Two last questions from me on Crown Commercial Service and getting the right people in. Famously, with Carillion, there was a vacancy for the Crown representative at that point. Do you think the system is working, and would you do anything to improve it?

John Collington: I have had no exposure to the Crown Commercial reps.

Q76 **Chair:** Only the one you recently went through the bid for.

John Collington: Emma Jones, from an SME perspective. Therefore I don't know the current details. My observations are these. Are there enough, and do they have enough time to perform that role as effectively as possible?

Q77 **Chair:** While also holding down other jobs.

John Collington: That is No. 1. No. 2 is, what level of support, in terms of insight and intelligence, are they given so they can perform that role as effectively as possible? That is the second point. Those are the observations I would make. My experience from seeing people coming in and joining Crown Commercial Service from the private sector or Government Departments is that it is positive. I think there has been positive progress over the last few years.

Q78 **Chair:** This is my final question. You are a strategic supplier—or your company is. What information would you be happy to provide to the Government in confidence? Better still, what would you be happy to put in the public domain? The Government often shouts "commercial confidentiality" at us. As a supplier, what would you like to keep commercially confidential but release to the Government, and what would you want to put in the public domain?

John Collington: Part of the specification was transparency, in terms of the information we provide about the contractors and the contractor day rates. Rate cards were published across Government. The commercial model we have put in place has been shared with all Government Departments. That information is there and has been shared.

Q79 **Chair:** That is within Government.

John Collington: Within Government.

Q80 **Chair:** So would you be frightened about it being in the public domain? Where would you like to draw the line?

John Collington: When you get to your cost base and profit margin, you would like that information to be kept confidential, as a privately owned company. You don't necessarily want to give away aspects of your secret sauce to your competitors.

Q81 **Chair:** But other than the money—the figures—would it be a problem for you, as a strategic supplier, if you were asked a question akin to an FOI, to answer those sorts of questions for the public?

John Collington: In regard to the contract we have been appointed to deliver, yes.

Q82 **Chair:** It would be a problem?

John Collington: No, it wouldn't be a problem.

Q83 **Sir Geoffrey Clifton-Brown:** Why, when parliamentary questions are asked around this sort of area, is it so often quoted back in the answer that this is commercial in confidence? What you are saying is that you think the whole of the contract ought to be put in the public domain, or am I misreading your reply?

John Collington: To encourage organisations to bid for Government work, as Crown Commercial Service has done with my company, so we are able to bring innovation that we are delivering in the private sector to the benefit of the public sector, there have to be aspects that remain commercial in confidence. That would be things such as pricing, salary rates and so on and so forth, because that is the differentiation between us and our competitors. When that answer is given it is because you don't want to give away to your competitors all of your commercial advantage, which you might have invested in to get.

Chair: Thank you very much for your time and for coming back to talk about your time in Government, which is now some time ago, so it is quite impressive that you have come without a note and remembered so much. Thank you very much indeed. The uncorrected transcript will be up on the website in the next couple of days. We will obviously send you a copy, and we are expecting to put out our report before the summer recess. You are very welcome to stay to hear Baroness McGregor-Smith, but if you have to get back to work, we understand that.

Examination of Witness

Witness: Baroness Ruby McGregor-Smith CBE*.*

Chair: Welcome back to the Public Accounts Committee on Tuesday 5 June 2018. We are looking very closely at the Government's relationship with strategic suppliers. We have recently released the papers relating to Carillion. We have chosen not to release the other 27 sets of papers we have received because we are concerned that some aspects of them might still be commercially confidential. However, there is information there and from other evidence we have had that suggests we want to look very closely at the relationship between Government and suppliers. I am delighted to welcome Baroness McGregor-Smith, who is now a Member of the House of Lords but was, until a year ago, the chief executive officer of Mitie, where she had been for, I think, 14 years.

Baroness, we would like to talk to you a bit about the relationship between suppliers and Government in general and then come on to some of the experiences you have had, particularly at Mitie. I ask Caroline Flint to kick off.

Q84 **Caroline Flint:** Good afternoon, Baroness. You were with Mitie for quite a while, but you were at Serco before that. Could you start by telling us a bit more about your contracting relationship with Government and how it has changed over time?

Baroness McGregor-Smith: I first got involved in outsourcing in 1991 when I joined Serco. I left in 2000, so I was probably there during some of the biggest growth areas of when Government first started to outsource. Probably the biggest change I have seen in the relationships between the Government and suppliers is that what started more as partnering in many cases has ended up being much more a typical supplier arrangement. That is a real shame, because when you are looking after big, complex programmes you have to have a very close partnering arrangement with your supply chain. What has happened, certainly over recent years, is that that has become a much more distant relationship. When things are so complicated and detailed, you need the teams from the Government side and the supplier side really working together brilliantly, and in some cases that has certainly changed.

Q85 **Caroline Flint:** What things do you think the Government do badly?

Baroness McGregor-Smith: I think that pressure on budgets has changed things substantially. There have been huge turnovers of staff on the Government side as well, which I don't think has helped. Whereas before, people from the Government side were very involved for many years in certain contracts for certain infrastructure, they move around a huge amount more now and so the knowledge you have is a lot less and you are much more dependent upon your outsourcers for the detail you would previously have had. That quality of detail that has moved out of Government needs, in some cases, to be brought back. I think it has gone too far.

Q86 **Caroline Flint:** What is the attraction of doing business with Government?

Baroness McGregor-Smith: In my days at Mitie we did very little central Government work for the reason that I did not think it was particularly attractive. We did it in a couple of areas only. I felt the risks were too high in many areas. I thought the contracts were too onerous and the cash flows unacceptable. Therefore, I had only a handful of contracts with central Government. The ones we did have were fine. One was quite risky and, again, that was down to data—not brilliant data being available and no one getting it particularly right at the beginning. I think the Government has gone through a phrase of bidding some very complex work in a way that I, certainly, did not think was a brilliant way to bid. Probably one of the big examples of when I said "no" was with the probation service contracts. I said that it was not something that I, as an outsourcer, could ever have done.

Q87 **Chair:** It sounds like you made the right call on that one.

Baroness McGregor-Smith: I can be right, but I guess you can always be wrong on some of these things as well. I said that because you have to decide as a Government what you want your outsourcers to be. You want them to deliver the expertise they are known for, which, in many cases, is producing quality services, reducing costs, and doing things safely and securely. What you do not want is for them to become responsible for what I regard as more Government challenges. To be paid on the basis of how many people you get into work, when you have a fixed input base, does not work for me.

I think it is this divide where, if you have very complex procurements, it is easy to lose sight of what is meant to be delivered, especially when there are hundreds of KPIs and very complex factors involved. If you take it back to very simple tasks, it is a bit like in construction: if you are going to build a building, there will be a certain specification. The simpler it is, the more likely you are to get what you want; the more bespoke it is, the less likely. There will always be challenges of expectations set when some of these contracts are procured.

For all the tough examples, there are also really brilliant examples of great practice in Government. But you have so many hundreds of different ways in which you procure; you have no standardisation across your Departments; you have very little that is similar; and you don't do knowledge transfer between your Departments. Hopefully data and technology can begin to change that. I am a non-exec at the Department for Education, and we have a really good commercial team that is focused very much on the schools framework and have brought in people with detailed knowledge, who I think make a great team that can work really well with the private sector and manage the risks appropriately.

But you need great people on your side to do it, because these are really complex things to do. Even facilities management, which I did, is still really complex in expectations terms. What the Government may regard as great quality but cheap is not necessary what an outsourcer may say. The more you cut costs and the more you reduce the cost of outsourcing, quality does suffer.

Q88 **Caroline Flint:** After the 2010 election, Francis Maude made it clear that strategic suppliers were going to have to take their fair share of cuts, austerity and trimming the fat, so to speak. The profit margins for Mitie went down significantly from 2013 onwards. Was that an impact of what was going on in the Government contracts?

Baroness McGregor-Smith: No, with the Government contracts there was only one that was really tough and we only had a handful. The general market of outsourcing has become much weaker in recent years, so that is why margins have gone down. I also disposed of a construction business in 2012-13, at significant cost. But I would say that when we looked at bidding contracts overall, over the years, margins have dropped if it is relating to central Government. Every outsourcer would say that.

Q89 **Caroline Flint:** It is interesting that you mentioned a construction contract there. A number of other strategic partnership suppliers have also had problems relating to the construction side of their businesses.

Baroness McGregor-Smith: I shut the entire construction side of Mitie in 2012-13.

Caroline Flint: Given what you said earlier about the inconsistency across Government in the way they procure, and given that you are now sitting on the Department for Education board, do you think that could allow some of the companies to run rings around Government Departments, when it comes to monitoring what they are actually doing and holding them to account?

Baroness McGregor-Smith: I think that you need brilliant commercial teams in every Department that are consistent in what they do and have the expertise. Even if you put it in the Cabinet Office, it is about expertise. That is not on contracting; that is actually on the skill. If, for example, you have a brilliant team across Government on construction, you can work really well with your construction outsourcers. If you have brilliant commercial individuals who have great experience and detail of facilities management, you will work well with your FM outsourcers. But you need to have the expertise, as it is on the other side as well—both need it. The other option is that you do more of it yourselves.

Q90 **Caroline Flint:** How effective did you find the Crown representative model?

Baroness McGregor-Smith: My only experience of that was not particularly brilliant, three or four years ago, where we did not actually qualify for any work on the first framework, because we were too expensive. What surprised me was that everyone appeared to qualify on the terms of quality, whatever the core quality criteria were, but we were deemed too expensive, on the back of a small benchmarking of one building. That is not the basis on which huge contracts should be let. That is the way in which the CCS chose to procure their first FM framework. Naturally, as somebody who didn't qualify for the framework, I am going to say it didn't work. I think that lessons have probably been learned from that framework, and that will continue.

Again, it is not consistent. It is the consistency of deliverability and quality standards that concerns me. At the end of the day, if something is a lot cheaper every time you bid it, something has got to give. It is not just that the outsourcer made too much money. You could argue that 15 years ago compared with today it should be a lot cheaper, but anything being retendered over the past two or three years should really be going up in price, because fixed costs have been going up in price.

For example, the costs of resources management must be going up in price because of the living wage and the apprentice levy. If the contracts are not going up in price, there must be a drop in something else you have agreed to. I think you have got to stand back and look at that logic. If there are fixed infrastructure costs for everybody in the private sector at the moment that are causing costs to go up, how can you be procuring services more cheaply? It does not make a lot of sense to me.

Q91 **Caroline Flint:** That sounds like common sense. You do not have to be a rocket scientist to work that out.

Baroness McGregor-Smith: That is the whole point: you don't. To me, it is all pretty logical. For the past two years—I said this before I left Mitie—outsourcing prices should surely be going up, not coming down, because you have the living wage, the apprenticeship levy, more compliance and so on. Every time someone builds a model, whether it is simple or very sophisticated in the different things you want, it surely must be getting more expensive in most cases. Yes, you can do innovation and bring in technology over a period of time, but someone has still got to pay for that. Someone has still got to pay for the technology and the up-front capital investment in that to get a return over later years. In year one it is still going to be more expensive, from a cash perspective.

I think that is a challenge in how these models are evaluated. In many cases models in Government are evaluated on what they will really cost in year one, and then somebody might try to do some discounted cashflow, but what about the through-life cost? What will it really cost in cash? What is the up-front investment that you need to make? Many of these models run to many thousands of pages. In a way, it is difficult to see the simplicity behind them.

Q92 **Layla Moran:** Picking up on that point and bringing it back to something quite tangible for me, I have got Campsfield immigration detention centre in my constituency, so I take a particular interest in Mitie. As you might imagine, the dwindling profit margins worry me because of the quality point that you raise. At what point would Mitie go to the Government and say, "This is not working for us any more"? Is that a free-flowing relationship, or is it a relationship that is a bit like, "You have signed up to the contract; you have just got to deliver it"? Can you take me through how it works?

Baroness McGregor-Smith: I cannot comment on the year and a half, but I can comment on the way I think it would work. In the case of immigration centres, there is a very close relationship with the Home Office team, and the Home Office team would be well aware if there were any challenges with their suppliers. My experience with the Home Office was that because these are very sensitive contracts where it would be hugely concerned if they went wrong, the relationships were very close. I always felt that the Home Office were a good client to have. They were a tough client to have—so they should be—but issues could be aired and discussed. I would not have had any concerns about that.

I don't think it is just about the money you make; it is about the service. It is not about the ins and outs of the money everyone makes, but about the service you deliver: whether it is a safe environment, whether it is operating efficiently—all the KPIs, of which there are hundreds, that they go through. The Home Office are on top of that. As they have a big team that looks after that estate, I would be less concerned. There will always be issues, but they have a close-knit set of relationships with their supply chain.

The challenge you have is not that; the challenge is where there are so many contracts that no one is close to it any more—where they are spread everywhere, they are very, very big and everyone is really busy. The civil service has reduced in size at a time when so much more outsourcing has happened. It is difficult, if you are responsible in a Government Department, to look across 50 or 100 contracts and suddenly come up with recommendations for what could or could not go wrong. There is so much of that in the detail, and every contract can be complex in its own right. Those are just the more complex ones, let alone the thousands of simplistic ones that are let all the time.

Q93 **Layla Moran:** What would you do to solve that?

Baroness McGregor-Smith: It is about the people in the Department who work with those suppliers day in, day out, because they are the closest to the supply chain. They are the ones who really have to manage that. You can absolutely have an oversight team in the Cabinet Office with the Crown reps, but the bulk of the work and the detail—even around safety; making sure that your buildings are safe—is not going to be done in the centre of the Cabinet Office. It has to be done on the contracts, in conjunction with the local teams.

If you look at the schools network across the UK, to say that they are safe, you are not going to sit in the Cabinet Office and ask that question; you have to go through the Department at every single level, and down to school level. You have to build the expertise all the way through your system. Because outsourcing has changed so much over the years, and so much more has been outsourced, it is a good time to stand back and ask, "What do we want the system to be? Is it fit for purpose today? If not, what do we want to make it now?"

Chair: That is exactly what we are doing.

Baroness McGregor-Smith: For me, as an outsourcer, it was only ever about building expertise. For an outsourcer, that must be what you have to do, as well as making sure that you are comfortable with the knowledge you have across your estates and your contracts—particularly in relation to health and safety, which would always come first—and that you are absolutely satisfied that you have your concerns dealt with. That has to come from expertise that you must hold.

Q94 **Layla Moran:** Would you summarise, then, that there is not currently the right set of skills and resources in the Departments to manage that?

Baroness McGregor-Smith: It is sporadic and mixed, depending on where you are. You have some fantastic pockets of excellence.

Q95 **Layla Moran:** You said that, but can you give an example that comes to mind?

Baroness McGregor-Smith: I think you have it—I can only talk about the Departments I have worked with. The MoD has great expertise in many areas. I always saw it as pretty much at the forefront of contracting and outsourcing, and having the most embedded and deepest expertise. The Home Office has really great expertise. I have certainly seen it at the DfE; there is some really good expertise sitting on the DfE side. I have only really dealt with those three over more recent years. You certainly have it across Government, but you do not have consistency.

Q96 **Gareth Snell:** You mentioned the MoD as a good example, but they have a single-source office, of course. They operate a very different set of arrangements from less sensitive commercial operators. In your experience, has that helped them to be better at what they are doing?

Baroness McGregor-Smith: They have just been doing it for longer. It is the experience that they have, and that they have had. Certainly, when I used to deal with the MoD—going back 15 years—they were well equipped to deal with that. If you look at property, ever since the PSA was effectively disbanded, the Government have almost lost the knowledge capability that the PSA had, which was a useful asset for Government to have. The MoD has always had that, because it was the first big Government Department to really do it.

Q97 **Chair:** It is interesting: you keep saying the MoD, but we have come across many examples where the MoD has fallen very short. Can you give us a couple of actual examples where you think the MoD has done a good job?

Baroness McGregor-Smith: Of the more practical ones, the last one I did with Serco was Trident. If you look at the entire programme and the way that those large programmes are managed, and the way that the teams work, they are good examples. Everyone knows about the ones that do not work for Departments, and the MoD will be no different, but that is one example that always stuck out for me as a well-run programme. Again, because it is so critical, it has its own holding company, it has its joint venture partners, and it has a whole sophisticated way of operating. Those contracts tend to operate really well, but they are very expensive to run.

Q98 **Gareth Snell:** That was not going to be my question. It was just that you mentioned the MoD, and because of their single-source operations and their ability to cite sovereign capability and defence issues, they operate in a very different sphere from, say, the Department for Education or the Department of Health and Social Care when they do their contracting.

When you started talking, you made a throw-away comment about getting people back into work. What I want to understand is this: where you have Government contracts that are payment by results on getting people back into work, as a bidder you will have no idea what cohort of people you are going to have to work with at any one moment. How do you—

Baroness McGregor-Smith: Well, I did not bid it.

Q99 **Gareth Snell:** No, you didn't bid it. Drawing on your experience from the sector, what sort of conversations would you be expecting potential bidders to have with Government to say, "Actually, the cost that you are associating with potential payments per result may not reflect the amount of work we have to do"?

Baroness McGregor-Smith: Well, I pulled out of that quite early on because I didn't understand how it was going to be done, but I would have thought that if you were a potential bidder to any programme under payment by results—I am not a fan of payment by results because the unintended consequences are that you end up being misaligned with what you are trying to achieve—as an outsourcer, you have a set of costs that you have got to manage. Regardless of payment by results, you are still going to have to manage that cost base. I didn't understand how it was possible to go into something where you are managing the cost base but may not be hitting something you don't really understand anyway—what kind of people and how are you going to do it? You are absolutely right about the probation service. I can only assume that those that bid it had those detailed conversations and got their head around the risk, but I didn't see how that was achievable.

Q100 **Gareth Snell:** Is that because when the Government published the tender pack, or whatever they want to call it, about what they wanted to achieve, it was lacking in clarity and detail on their end?

Baroness McGregor-Smith: It is a fantastic ambition, but it is about the detailed implementation of the ambition. It is about saying, "Look, here's a policy paper." It is about turning it into an implementation paper that turns into a set of deliverables. Part of that is about having a supply chain that can help you. In that case, and some others, the ambition is fantastic but the likelihood of delivering it is really, really low. The message I got back when I said I didn't want to bid it was, "It's not an issue because lots of other people do," so the Government made its choice.

Q101 **Chair:** From our previous witness—and we've heard this from other places—we heard about having a dialogue with suppliers before the bidding happens.

Baroness McGregor-Smith: Absolutely.

Chair: Did you get enough experience of that?

Baroness McGregor-Smith: I did, and I said I didn't understand how anyone could put so much cash flow at risk.

Q102 **Chair:** But that is for that single contract. What about contracts in general?

Baroness McGregor-Smith: It comes down to the individual Departments. I compare it to the private sector. I think the experience when you bid in the private sector is not that different. The difference is that, when you start your contract, if it then transpires that there is a huge variation between what you think, you tend to have a negotiation and deal with it. You don't do that in Government contracts. They just don't change anything because they are so concerned about value for money and having to rerun programmes, whereas I have signed huge private sector contracts before where I have had no KPIs to deliver for six months, on the basis that we needed to understand where we all agreed them, so we needed six months' leeway. The public sector won't do that; you have got no flexibility on your side.

I think there must be a way to build in more flexibility, because everyone is so worried about, "Well we said this, and now it might be wrong." In outsourcing, things change every day. You take on a contract and think you are going to get something with X assets and X thousands of people, but it transpires a day later that actually it was Y assets and Y number of people. Someone somewhere along the line has got to pay for that. When it is a public sector contract, the public sector say, "No, you accept the risks." Well, why bid it? If you are not going to know and don't get the right data, why do it? A lot of outsourcers have been caught by that. I certainly had one or two in the past that we were caught by, and I just said, "I don't want to do that anymore."

The private sector tends to be more flexible than the public sector in the way it negotiates—up or down—which means that the Government gets itself into a situation where it says, “You bid it, and therefore it’s your issue, and therefore you must now pay if the numbers go the wrong way.” If it then transpires that the information flows were weak or not right, it might have been your responsibility if you have signed the piece of paper, but you have got some joint responsibility, too. Otherwise, fewer and fewer people will work with you.

Q103 **Gareth Snell:** That is really interesting, because what you have described there is a situation where a lack of information, with a rigidity around what might need to be negotiated once the information comes together, is a barrier to successfully delivering value for money projects. If you were to redesign the system from somebody who sat on the other side of the table, what would you like from Government on day one that would help you to take on a contract and deliver a robust governance mechanism so that there are not failures, but that also delivers value for money for taxpayers?

Baroness McGregor-Smith: If, for example, it is a new facility in a facilities management contract, that is very different from an existing facility. If a new asset has been built and you are going to have to look after it for a number of years, what you need more than anything else is the right baseline data. If you get the right baseline data, you can work out a price that you can stick to, but if your baseline data keeps changing and you are vague about your specification, then there is a danger that it will have to be redesigned pretty quickly.

On an old building or old infrastructure—take the prisons infrastructure or any of your infrastructures—everything is around the asset surveys and the condition of the building and infrastructure. If you haven’t got that, you won’t know if you are getting value for money. Equally, it is incredibly expensive to make sure that all your estates have up-to-date asset surveys, particularly as technology—if you have a building and it gets rewired, you actually have to redo all your asset surveys. Every time you change something, you have to update an asset survey. I think more money should be spent on that to help you have the right baselines for everything you do.

Q104 **Gareth Snell:** Moving away from the area of hard and soft service management towards those service delivery contracts, whether that be through probationary services for prisoners or getting people into work or those things that are much more difficult to quantify at the beginning, what sort of data would you have liked to see that would have allowed you potentially to take forward a procurement process?

Baroness McGregor-Smith: I would have gone down a different route, which is to partner with the probation service. They have a role in this. What should the role of the probation service be and what should the role of the outsourcer be? I think the probation service have a huge role in this. They are, overall, responsible for it. You are part of a supply chain that is helping them.

I don't agree always with outsourcing payment by results, because I think it is partly outsourcing some of your responsibilities. That is where it gets difficult. Everyone has to know exactly what they are responsible for; the teams and probation service have to as well as the teams of the outsourcer. Unless you both really know what you are there to do, you can spend half your time arguing around who has achieved what, as opposed to getting a lot done. I think most of it is around vagueness of specification. Be crystal clear what you are outsourcing, crystal clear what you take prime responsibility for, and then it is better for the teams on the outsourcing and your side to work brilliantly together.

At the end of the day, what we haven't really discussed yet is people. For all the contracts in the world, all this work is effectively still done today by human beings. They all need to work together well and to be given support to do that. My view was that you are not just an outsourcer; you are a partner to the Government. If you are a partner to the Government you are trying to do things jointly. You can't do that if you are literally at loggerheads over your contract every day. The original spirit of outsourcing when I joined Serco was that you partnered—if you got the contract out, you both really had an issue. I think we need to go back to good relationships, albeit commercial, professional relationships, where partnering is what you are about, not, "Here's a contract. Deliver to it or we will penalise you," which I don't think in the end works—always.

Q105 **Gareth Snell:** That is really interesting. I have two points. First, how receptive do you think Government would be, or have they been in the past when you have dealt with them, to somebody saying: "Actually, we think you are asking the wrong questions and we think we can redesign the service with you"? I sometimes feel that Governments of all colours decide: "This is what we want and this is how we want you to do it," rather than saying: "This is what we want. How could we get there?".

Secondly, given the disparate nature of Government, with each Department having its own teams doing its thing, do you think there would be a case to take all that away from Departments and have it done very much centrally by one dedicated team, so that those sorts of conversations don't become dependent on individuals in certain areas of Departments as opposed to one team that has the right ethos running all the way through it?

Baroness McGregor-Smith: That team would have to be rather big and I would not centralise it. I would put it with its areas of responsibility. If it's healthcare, keep it with healthcare; if it's education, keep it with education. You need expertise in those areas. Generally they need to understand the education ethos or the healthcare ethos, probation services, Ministry of Justice—whatever it may be. I would keep the teams within their areas of expertise. Oversight is fine in the centre, to make sure you are getting the standardisation and the quality of what you want, but I think you have so much devolution you must have everything in Departments out in the school networks or out in the hospitals.

Over the years, and as I've talked to people who are at the coalface of these services, whatever they may be, the greater the number of people in the centre effectively—whatever the centre may be—who are involved, the less helpful it tends to be. They need to have control and ownership of what they're trying to deliver on the ground, so the closer you can give it to them, the better.

I think that really matters and for me that is what ownership is about. You want people who really care on the ground. They won't care if everything's just done by some central function somewhere that nobody ever sees. That is the danger and I would not advocate that. And that may mean that theoretically it looks more expensive on paper, but in the long term what you get is safety; you get people who I think are far more empowered, and actually you get better delivery. That is my view.

Q106 **Lee Rowley:** I just want to go back over a couple of points that you have made over the last few minutes. You have mentioned a couple of times that the role of procurement has changed in the public sector between the 1990s and now. I sort of inferred from you that you conclude that currently we are in a pretty bad state. I mean, you talked two minutes ago about there being in the 1990s a "good relationship" and now it is all about penalising, and so on. Is public sector procurement and public sector management of contracts generally in a bad place at the moment, however you define that?

Baroness McGregor-Smith: I think it is mixed and I think everybody will have a slightly different answer, given their individual experiences, but I think there is always room for improvement. I am not going to say it is bad everywhere; I don't think it is. I think there are pockets of bad; there are pockets of great. But I don't think it is consistent. And I think you need consistency, but I don't think the cuts have helped. I think that has made it very difficult, as well.

Q107 **Lee Rowley:** You talked a moment ago about the public sector being relatively inflexible compared with the private sector, particularly from a contractual renegotiation perspective. What behaviour does that engender in those who are bidding for public sector contracts, because the risk will be built in somewhere? Where is it built in?

Baroness McGregor-Smith: It means both sides will become gradually more and more inflexible, which means it will lead to more contract terminations, more and more difficult negotiations, and ultimately a poorer service.

Q108 **Lee Rowley:** So it is the service where there are—?

Baroness McGregor-Smith: Well, I just think that there is no point signing an outsourcing contract and then falling out with your client, because you are not going to deliver a great service if you do that. If you are not aligned from day one, and you cannot go on any kind of journey with a long-term outsourcing contract together—and of course there will be ups and downs in that relationship over the years on both sides; there will be change in personnel; there will be thousands of things that change—if you are not aligned on where something is going to go over a period of time, it is going to make for a difficult relationship.

Let us say that you get involved in a huge construction contract and something does go wrong, which can happen, and there are renegotiations, regardless of how everyone feels it is still better to have some flexibility and pragmatism around what you want the outcome to be.

I do think that in recent years there has been too much of a tendency to say that it is the outsourcers that have got it all wrong. I don't think that is the case in every case. Of course there are mistakes and failures, and that has always been the case, actually. Ever since I first got involved in outsourcing, there has always been some kind of failure at some stage over something, but that is because there are lots and lots of things being bid. But we rarely talk about the really brilliant ones which go exceptionally well. We don't use the best relationships from them to really drive the rest, to stop the rest of this happening and being examined in this way.

Q109 **Lee Rowley:** A moment ago, you talked about more terminations. In the period where you were chief executive, or across the industry as a whole, did more terminations come across your desk in the public sector than in the private sector in a demonstrably greater—?

Baroness McGregor-Smith: We certainly had a few more local authorities. We certainly had some in certain areas—pricing, risk, whatever the issues may be. Sometimes that is the right thing—you don't want the same suppliers forever, and outsourcers should not be with the same clients forever.

Q110 **Lee Rowley:** But comparatively to the private sector.

Baroness McGregor-Smith: I think it is just weaker, and I think there is less trust on both sides. I think trust is a big issue.

Q111 **Lee Rowley:** Can I just take you back a moment? You have emphasised quite a lot the need for additional skills on the Government side, for setting up, execution and management. Can I challenge a little on that? In your previous role, you went in as a representative of a profit-making enterprise—you are not there for charitable purposes, presumably—so you accept an amount of risk within that discussion. You accept an amount of responsibility in terms of what you take on.

Baroness McGregor-Smith: Absolutely.

Lee Rowley: If you are a clever company, you will draw lines that mean you do not exceed the level of acceptable risk or knowledge. Why should the Government just load up their side with lots of people to manage contracts that should not be dysfunctional in the first place?

Baroness McGregor-Smith: Because if you are bidding a contract that involves thousands of sites where your baseline data from Government is not right from day one, because you don't have the detailed information—let's say you are bidding on a contract with 500 buildings and you have not got the latest asset surveys, you have not got the latest project planning, you have not got the latest health and safety certificates and fire safety certificates for every single building yourselves, what you are then relying on when you outsource from one to the other is, "It must be okay; I'll give it to the next bunch, because they are cheaper and we prefer them." You are expecting TUPE transfers to happen and all the information to happen. You are expecting everything to happen between your outsourced base and you are not overseeing it. That is why everyone says, "The contract says X, so we would like to get this data from day one," and the Government say, "We haven't got it for three months" and you are due to start in a week. What do you do?

You are absolutely right about outsourcers who take on risk that they haven't got right. I am not sitting here saying I am expecting to offer them huge amounts of sympathy. What I am saying is that that is fine on a tiny spec contract that is so simple to understand, but some of these contracts are so huge in volume that no one is going to get this right. So the Government outsource it, looking for all their baseline data. Your baseline data is not perfect, nor are the outsourcers, and if you are transferring things with thousands of staff, that is huge amounts of information that you are assuming to be right. I can give you the list—terms and conditions, visas, right-to-work legislation, wage rates, where they are working, shift patterns. That data isn't perfect, and it won't be right. I am simply saying that it is always in the detail. The detail normally shows that someone has made a miscalculation. It could be the Government side or it could be the outsourcer side, but someone somewhere has got to accommodate that. Certainly in the first six months of anything new, I would make it very much open book transparent teamwork, just to make sure you get your baseline right, and then you can avoid a lot of the problems you face.

Q112 **Lee Rowley:** Would you, or have you, or have you ever seen somebody else in the industry take on a contract that they know will be uneconomic from the first point?

Baroness McGregor-Smith: Many of us will have a view about many others. Everyone in the industry at some stage has probably taken on something they didn't wish to take on. I don't think that is a great thing to do. Mistakes do happen. Have I seen anyone deliberately undercut a market for a consistent period of time? I certainly felt I saw that, before I left, in the last two years. We had some massive variability on pricing on one public sector bid I did, and that contract has now gone, insourced back to Government, because it was way too cheap. So yes, I did see some evidence of that over recent years.

Q113 **Lee Rowley:** How do the Government work out that that is happening? Did the Government know in that contract?

Baroness McGregor-Smith: Their message to me was very simple: "The fact that they are 40% cheaper is because you are too expensive." That isn't right. In that particular case, it wasn't right at all, but these things do happen. So much of it comes down to how your models are represented back, how someone has modelled through-life costing, what the variables are. There are so many different things that can change in a model, but it wasn't logical. There are various things to correct that. If you have massive discrepancies between bidders, someone has got to go through that properly to check it is right. In this particular case, they said it was right and they gave it to that contractor, but it has now gone back in.

Q114 **Lee Rowley:** Is the Government trying to outsource things that are too complex?

Baroness McGregor-Smith: I look back over the last 20 to 25 years and I would simply say that one of the dangers of outsourcing so much is that you lose your expertise of what it takes to run those contracts, because you have not got that experience anymore and the outsourcers have. This means that when you decide to outsource, you are not always doing it with people that have lived, breathed and done that for many years, because more and more of them now work in the private sector. It could be argued that, as I have been saying since the beginning, you need to bring some of that expertise back to you to make sure that you are comfortable with what you are outsourcing in terms of risk and making sure you are comfortable that your infrastructure and your assets are being managed to the standards you expect. You could only do that with the right people.

I remember coming to a Committee three or four years ago, and I haven't changed what I have said since then, which is that it is not always attractive for individuals from the private sector to come and work for the public sector. That is a real issue when it is something so complicated. I urged the Committee three or four years ago to take a look at this in detail and said, "Look, from remuneration to what you can do, you need to have some of that on your side." I know some of it has been built since then, but I would really recommend you do that. Then I think you would get a better balance, because ultimately you do not want them and us. You want people aligned to deliver great value for money and for the outsourcers to have a great public ethos. You can't do that—they are not public assets, they're private companies.

Q115 **Lee Rowley:** What is the right profit margin in outsourcing?

Baroness McGregor-Smith: It depends on your cost base. There are ways for you to deal with that.

Q116 **Lee Rowley:** So what is that?

Baroness McGregor-Smith: I am not going to give you a number because everyone is so different in the sector. What I did, which I thought was a great model, a sensible model that I did on a number of contracts in the early days of Serco, was we would cap profit. You could cap a profit margin. So whatever you thought it might be, you could say, "Look, in year 1, if we are really unsure, why don't we try and have a capped methodology and use target cost incentive fee models?" That gives you more certainty.

Then you could stop having a debate about what the right profit margin should be or not be, because it is not about the profit margin, it's about what you saved overall. If someone is making 5% or 15%, do you mind if you have saved £0.5 billion or £1 billion? It comes down to what the overall saving is and if there isn't a saving, because it has been outsourced three times, just accept there are no savings and the margin is going to stay constant.

Q117 **Lee Rowley:** I am going to abandon my last question, just to follow that up. What is too small a margin, then? If there is no average right, if we go below 1%, 2% or 3%--

Baroness McGregor-Smith: No, that is way too low because of the risks you carry. If you take a look at risk—and it depends again on the kind of contract—if you have got a very sophisticated, complex contract, you have got to build all the theoretical risks in. That makes you too expensive, so you have got to put in a risk margin. So it comes down to how much risk you are prepared to negotiate out of the contract.

No, if you are at 1%, 2% or 3%, it does not take much to go wrong and you are going to lose money. That is not where the Government want their outsourcer to be.

Q118 **Anne Marie Morris:** You have talked about some very complicated contracts. It seems to me that maybe some of the sizes are just too big and almost, therefore, they are going to fall over anyway. Do you have any advice for Government as to how they should, going forward, look at scoping and the size of and the level of complexity of these contracts before they go and let them, as much as they can, any one contract, theoretically because they can manage it more easily because it is one contract, which is false?

Baroness McGregor-Smith: If you are doing very large and complex, you have got to have your own infrastructure within that team and you build that in. Crossrail could be an example of that, where it has its own management team. There are a lot of Government representatives involved; it is an asset that you look after and there is a team focused on that asset. That takes those complex things where you can do it—as long as you have got the right infrastructure and people to do it. For me, it is about that, more than the size.

It is no different from when you are an outsourcer. The first thing you say to yourself when you are going to bid something is, "Do I have the people to do it, can I deliver the services?' That is no different from you. The first question—which I presume the Departments do ask themselves—is, do we have the people who can oversee it, in case anything goes wrong? Because if they do not, you have to ask yourselves why they are doing it. You are almost asking exactly the same question that the outsourcers would ask, which is, "Do I think this is too big? Could it make me fail?" You have to ask yourselves identical questions; they are no different.

Q119 **Anne Marie Morris:** You are right. I have two supplementary questions. The first is, if you continue with these mega-contracts, how realistic is it to involve SMEs? That is supposedly the Government's aim, but the bigger these contracts are, the less likelihood there is of being able to bring in SMEs, which seems rather a shame. Secondly, what you say is right, but that assumes that the Government is as good at managing its different pieces as the subcontractor is at managing the different arrangements and contracts it has underneath. I am not convinced that that is where we are.

Baroness McGregor-Smith: That should be your ambition to be that, surely—to be good at managing what you hand out—yes?

Anne Marie Morris: Yes, absolutely.

Baroness McGregor-Smith: That is my point. If you need to be that, then you need to have the expertise to do it. My view is, of course no one is perfect at these things, but you have got some great areas where you are really good—just keep expanding the great areas and put yourself on improvement. Do what an outsourcer would do; keep improving standards.

On your SME point—from an SME perspective, it is quite difficult for some of the SMEs to understand how to contract directly with Government Departments. They can't, because of the costs of bidding; by the way, many big companies won't work with you because of the cost of bidding. So the cost of bidding is still an issue, and has been so for years and years. It does not appear to be going down particularly. It would be interesting to encourage, and have, a different kind of SME framework, where you have people who were going to work only with SMEs. You could do that; you could have different forms of initiatives for SMEs, to say, 'It's fantastic that we've got all these big organisations working for us. All of them started as SMEs one day; we want to back our SMEs'—which the Government have a target to do. It is important to build SME expertise in. For example, they won't have the same balance sheets. Therefore, will you be prepared to do it? You are going to have to make the decision yourselves that you are going to back them differently. They will have different, individual niche expertises, so you are going to have to contract differently to contract with them. If you want more SMEs, then you will have to do that. At the moment there are too many barriers to the SMEs. Some have great experiences, some do not.

Q120 **Chair:** We are obviously looking into that element as well.

Q121 **Anne Marie Morris:** But it seems to me that for that to work, there is quite a lot of investment that Government have to make. We can't just say, we would love the SMEs and will remove some of the barriers, but that is it. You're talking about their need to understand a different sort of relationship and framework.

Baroness McGregor-Smith: Absolutely; because if you have a framework with 1,000 SME providers, which normally you would have with one big outsourcer, it is going to cost you a lot more to manage the 1,000 SME providers.

Q122 **Anne Marie Morris:** Therefore, if you were the Government, and looking at value for money, would you even go there?

Baroness McGregor-Smith: It depends—with value for money, it is very easy to have that statement, 'There's value for money'. But if the Government is serious about SME engagement, it has to accept that there is a cost of doing business with the SME community that is more than just the standard value for money terminology that tends to be used. That is important.

Q123 **Anne Marie Morris:** Okay. So, a decision has been made—you can't fit one within the other.

Baroness McGregor-Smith: No. I absolutely believe that SMEs should be afforded greater opportunities from the Government. I have always said that—for many years.

Q124 **Anne Marie Morris:** Okay. In terms of the other side of the piece which we talked about—namely, the Government and making sure that they have control of all their bits. You talked about good relationships with the MoD and the Home Office, but you didn't talk about the relationships between the hub—the central procurement bit.

Baroness McGregor-Smith: I was a strategic supplier when I was at Mitie, even though we only had a small number of contracts, but I had a good Crown rep. But I always felt that it is really challenging to be a Crown rep, because you don't have the delivery of all the contracts as your remit. You are a liaison between the company and the Departments. Every Department thinks differently about its relationship with suppliers, and it is a difficult set of things to juggle. I always found it a useful set of exchanges and it was useful to catch up on a regular basis and discuss the work we had, but I only had three or four central Government contracts. If you have 50, I think it is quite different. All of mine had pretty good interactions with the Department, and I did not have a difficult Crown rep relationship. Occasionally if something was not going right then they would tell me, but it was quite a sensible relationship.

Anne Marie Morris: But did you feel that you had any relationship—or that the Crown rep had any relationship—with the central piece?

Baroness McGregor-Smith: I think you did, but as always the system is quite mixed. I do not know if all their roles are full-time, and I do not know the specification of their roles. All I can tell you is what I saw. They moved around a lot, so knowledge base is a challenge. I know it is difficult for you, but the more you can keep people together the better, even though they seem to move every 18 months. I have said this over many years.

Q125 **Chair:** Was that down to the Crown reps and their career path? They are outside the civil service in a sense.

Baroness McGregor-Smith: Yes. It is a good role, but it is one that should encourage people to stay longer.

Chair: An incentive to stay.

Baroness McGregor-Smith: Yes. Anything you can do to encourage that would be better. They do not stay with you for long enough.

Q126 **Anne Marie Morris:** Corporate governance: now becoming trendier by the day, I am pleased to say, but technically it applies to the large supplier generally, not to those lower in the food chain. I asked whether it was appropriate to introduce some of those best practices that you would expect in a corporate governance landscape in the rest of that supply chain, not just about payment on time but many of the other pieces of that risk management which come with corporate governance. Question one on corporate governance: should it be an obligation to have that cascaded down from the main suppliers to sub-suppliers? Question two: given that corporate governance has actually made the private sector much more responsible and accountable, should corporate governance be introduced and required to be complied with on the part of the Government? Just about every piece of corporate governance does not apply to the Government, yet surely they should be held to the same standard. It might improve some of the things you have talked about.

Baroness McGregor-Smith: Yes, I think it would be sensible, but you should be very specific about the things you mean. Corporate governance covers a lot of areas, and it would be different depending on contracts, and the different types of Departments. I certainly agree that it should be further down the supply chains.

Q127 **Gareth Snell:** Just to briefly pick up on your comments about the need for SMEs to have a greater opportunity: from your experience do you think that the Public Services (Social Value) Act provides a sufficient framework to allow SMEs to pick up public procurement work? If not, what would you like to see changed?

Baroness McGregor-Smith: I was talking about the Public Services (Social Value) Act recently. I don't think that all of it has been implemented. For example, I have seen it implemented really well in Scottish procurement, when I worked with Scottish Parliament. The wider areas under the Public Services (Social Value) Act around the impacts on the community and what else the supplier is doing are really important. You see pockets of it being used. I have seen local authorities use it, and I have seen the Scottish Government use it.

What really matters is that if you think about the fact that we are going to move more towards these shared value models anyway, you have got to start thinking about the impact the private sector has upon the communities where it works. It might be apprenticeships, or working with individuals who have been disadvantaged in some way, or improving diversity. Whatever it may be, it is really important that you have that. When I chaired the Women's Business Council, or in my *Race in the Workplace: The McGregor-Smith Review* last year, I was saying that even on diversity alone you should be making sure you feed all that through your procurement. The Government say that they want better diversity and more women in executive places, but you never ask someone in the supply chain about it. It is a great lever. Every time you contract with someone, you should ask them questions on race. How many people coming to a pitch are black? No one ever asks questions like that. It is only ever about price or bidder quality on a piece of paper. I think the impact of the Public Services (Social Value) Act should be brought in in a much bigger way and put almost at the heart of what you are trying to achieve with procurement, because of the wider benefits it gives to society, which I think it can do lots to.

Chair: We look a lot at the other costs in the system, so that is quite interesting.

Q128 **Sir Geoffrey Clifton-Brown:** Good afternoon, Baroness. You started your evidence session by prudently saying that there were some contracts you would not touch because you did not think the profit margin was sufficient for the risk involved. Do you think that in 2016-17 Mitie began to bid for contracts that it knew did not have sufficient profit margins but it did so under pressure from shareholders to report ever-increasing amounts of work in progress?

Baroness McGregor-Smith: Since I left or while I was there?

Q129 **Chair:** Just speak about your last year.

Baroness McGregor-Smith: I saw a big decrease in profitability coming out from delayed decisions being made post Brexit; certainly our results were coming down. I never felt under pressure to bid for onerous contracts that were too risky. I had never felt that pressure. I felt that the pressure was different. The pressure was around the shareholders naturally.

Any system is going to have pressure. I have never, in outsourcing, felt under any obligation to bid loss-making contracts. Mitie—the whole outsourcing industry and all the retailers—we are in a different stage of the economy. Many industries have been really struggling to make the money they made a while ago. The pressure never came from wanting to win more work at lower margins—no.

Q130 **Sir Geoffrey Clifton-Brown:** In the light of Carillion, why is it that the profit margins on these Government facilities contracts—particularly engineering contracts, which Mitie was well involved with—are so thin that it has led to Carillion going into insolvency, Mitie's balance sheet being completely emaciated and other major public sector Government facilities contractors getting into trouble? Do you think the profit margins are not sufficient for the risk involved in this type of very complex contract?

Baroness McGregor-Smith: The issues I had were slightly different. We had a business I looked to dispose of in health because it went from being profitable to non-profitable because local authority budgets were cut by 50%. Everyone in healthcare has certainly had horrendous experiences in recent years, and that continues. That can happen in any market. That is a risk you take. It was not a great experience at all.

I think that outsourcing is evolving in the same way every other industry is. Not all outsourcers are hitting the challenges of all the large ones. Some of the global ones are still doing very well. It is more the UK-centric ones that have really struggled, but margins are lower. I was not bidding contracts that were loss-making, but the margins I was bidding in the last three years were lower than eight years ago.

The big change for me came in 2015 with the announcement of the living wage. The living wage impact has been huge on the outsourcing industry. Then we had the apprentice levy, too. These are millions and millions of pounds of cost that nobody wants to absorb, so margins are structurally lower.

For example, we had protection on the minimum wage, but it meant that nobody wanted to give us any other work, as they did not have any money, so they cut other things. That is why engineering work got cut. We had some big cost changes come through in 2015 and 2016 that meant that we were not winning the level of variable work we used to win, which was high margin.

That is what happened there. I cannot comment on Carillion—you will all know more than I do—but they had their own challenges in a huge way on onerous contracts. I never experienced that; I just experienced a bigger cost base and delayed decision making—

Q131 **Sir Geoffrey Clifton-Brown:** I'm really struggling here and wonder if you can help me. You rightly pointed to the number of Government-imposed cost increases in these types of contract, yet all of you—Mitie, Carillion—are bidding profit margins down. It seems that a lot of these big Government facilities contracts are simply unsustainable.

Baroness McGregor-Smith: It is not just about the profit margin; we should look at the overall cost. If, for example, you have a contract of £10 million a year, it is less about the margin of 3%, 4%, 5%, 6%, 7% or 8% that you may make, and more about what sits in that cost base, whether you have taken on the right risk that can swing the cost base, and what you can do. The challenge in facilities management is that the bulk of the cost is labour. If you think, "I've got to keep quality the same, but my fixed cost is going up and I can't cut anything," you are going to make less money if new rules come in on the minimum wage. That might protect you to a certain point with your client, but your client might then say that they have no money either, and in some way you have to try and make a cut between you. I think there are a number of challenges across the sector. Absolutely, some contracts are bid lower, but equally not all of them are. I could point to many examples of where contracts were not bid lower.

Q132 **Sir Geoffrey Clifton-Brown:** Can I just challenge you on one of your answers? You said that in the private sector there would be a contract renegotiation if information subsequently came to light. Surely the same thing is true for a Government contract. If the Government give you information, and you bid on that information and it proves to be incorrect, surely you would be entitled to go back to renegotiate that contract.

Baroness McGregor-Smith: Absolutely, as long as you can point to the detail of that. Sometimes Government contracts are not as clear. There is certainly more trust, I think, in private sector contracts than in Government contracts, for the simple reason that your audit trails are so detailed that if it doesn't look like X, you cannot claim for it. For many years, there has been less flexibility in public procurement than there has been in private procurement.

Q133 **Sir Geoffrey Clifton-Brown:** How could payment by strategic suppliers to SMEs be improved? We heard in the Carillion case that SMEs weren't paid for many months, and indeed in some cases they had to negotiate discounts in order to be paid on time. How can the Government improve that situation when they let these contracts?

Baroness McGregor-Smith: I think the Government say that they pay on time.

Sir Geoffrey Clifton-Brown: The Government pay on time under the code.

Baroness McGregor-Smith: No, the Government pay on time on what they agree—on an approved invoice. If they query an invoice, they do not pay on time. We should be really clear what paying on time means. You can have many variations that are not paid on time.

Q134 **Chair:** You can have a small discussion about a few hundred pounds, or a few thousand pounds—

Baroness McGregor-Smith: It is not even that. I used to have—everyone will have this—quite material amounts always being queried. They were not small amounts at all, which meant that many things were held up because processes were not brilliant, including on my own side as well. With payment, it is about the flow down to SME providers, and the Government should look hard at how they can make sure that SMEs are protected. I am sure there are ways in which you can ensure that they are protected.

Q135 **Sir Geoffrey Clifton-Brown:** Given that the system is not working, do you think it needs some sort of statutory backing?

Baroness McGregor-Smith: I would agree with that, yes.

Q136 **Sir Geoffrey Clifton-Brown:** Finally, I don't know whether you were in the room, but I will ask the same question that I asked Mr Collington. Having been involved in the procurement process for these big complex contracts, what advice would you give to the Government—you are still involved in the educational side—about how they could improve their procurement process?

Baroness McGregor-Smith: They need more and more expertise and consistency of delivery, and for individuals who have delivered in the private sector to come in and work for them more and more.

Q137 **Caroline Flint:** I understand the logic of what you were saying, Baroness, about the Government not being clear enough about what they want, and not understanding the nature of what they are asking you to do, or perhaps not even knowing how many buildings they have that need to be cleaned. However, that does not seem to have stopped Mitie or other strategic suppliers continuing to bid for these contracts. Why is that?

Baroness McGregor-Smith: I think there will always be cases where information flows aren't perfect and that is okay, as long as there is an understanding and as long as there is some trust. Quite often during a bid phase, the information changes a lot. You both have to be on the same page about what happens when the data changes and the price goes up or down. If you are, it will always give me hope it is a good relationship and it is worth bidding.

I think it comes down to the individual relationships you build with Government and whether or not you believe you can continue to work with that particular Department. I can certainly say that, as senior adviser at Mace. They work across 100-odd frameworks and have positive experience of many areas of where they do bid.

Q138 **Caroline Flint:** On Mitie, in terms of its revenue by sector in 2016-17, you have professional services, cleaning and environmental, security, catering, engineering services and public services. You have mentioned, obviously, that it withdrew from the care market and sold the home-care service part of the Mitie company for £2. Then, of course, you are a subcontractor to AWE Ltd on the defence side.

Is there a danger that these strategic suppliers are spreading themselves too thin across a whole number of areas, some of which—particularly on the facilities management side—you have said yourself have pretty low margins and all the other problems you have said about the apprenticeship levy, the living wage and so forth. Shouldn't you, on the board of the Department for Education, be wary or offer advice about taking on some of these companies that have spread themselves so thin across this sector?

Baroness McGregor-Smith: I think at the Department for Education we would say that they should do regular reviews with their supply chain to make sure that they are comfortable with the level of risk they are taking on, that they are not too thinly spread and that they have the right people and infrastructure to manage the level of contracts that they have.

Q139 **Caroline Flint:** But how do you know that one person doing one contract, say on the catering side, is not the same person that another Government Department is employing on the cleaning and environmental side?

Baroness McGregor-Smith: Most of the work of Mitie that you are talking about is in the private sector. It is all split by business. There is only a handful of central Government contracts and there is some local authority work which we have done in different areas and have done for many years on framework contracts. The bulk of Mitie's work is framework and has been done for years. It would come down to the individual relationships and the devolved business with the people working within those Departments or in local authorities.

It is very difficult to try and do that centrally with the thousands of different relationships you have. A pest control contract would be £100. You have to decide when you talk about thinly spread what you are really concerned about, because there is a place for the big companies and there is a place for the SMEs—there is a place for all scale of companies to work with you.

Q140 **Caroline Flint:** I suppose what I worry about is these big strategic suppliers hoovering up Government contracts and ultimately being the jack of all trades and the master of none when it comes to innovation and supplying of some of these services.

Baroness McGregor-Smith: I think I felt with Mitie that we structured things on a more specialist basis, so we had a catering company and a security company. Others did it on a sector basis. I have only ever done it at Mitie on a speciality basis, because security is so different to catering and so on. It is down to the individual units to decide what they are bidding and with who, and whether or not they have the capability to do so.

I think there will always be a risk as you get bigger that you could be considered to be too thinly spread, but you have a break on that. You don't have to award contracts to providers. You can make those decisions that you are only going to give them X amount of work. That is a decision that Departments can make.

Q141 **Caroline Flint:** Going back to Sir Geoffrey's point earlier, should we be worried about Mitie? Has it got enough cash in the business to sustain itself?

Baroness McGregor-Smith: I have not been chief executive for over a year and a half, but I am not concerned about it.

Q142 **Caroline Flint:** And you are not concerned that there is a second Financial Reporting Council inquiry into the accounting of Mitie.

Baroness McGregor-Smith: No, categorically not.

Q143 **Chair:** May I ask very briefly, because we are coming to an end, about the expertise? You have decided to do it by skills, others do it by sector. We have sat in this Committee over many years and seen companies that have gone in and bid for something with no expertise, in an attempt to buy out the smaller company or buy in the expertise from a smaller company. Sometimes they have categorically failed and then it has had to be taken over by another company. Do you recognise that behaviour and do you think there has been an approach in the sector to sometimes just go in because you are good at winning a contract, come what may in terms of delivery, or do we just get the raw end of it?

Baroness McGregor-Smith: I think, unfortunately, there are always going to be examples of contract failure in an industry that is growing rapidly and taking on a huge amount. If you grow too quickly or if you take on too much, you can absolutely always get things wrong.

Q144 **Chair:** Do you think some of them should have made a judgment? I think it was Capita running the court translation services and they just didn't have any background in that at all. They didn't know anything about running translation services. In fact, a small company had been doing it for a long time, which would never have had a chance of bidding for a Government contract because the companies in the game were very small, but a bigger company could win the bid.

Baroness McGregor-Smith: I think it is very easy to get excited by different areas and then sometimes find you don't always have the expertise you think you have. I am sure every outsourcer has got examples of those over the years. It was a fast-growing, immature industry and as it has matured, it is changing. It is getting a bit more sophisticated in the way it chooses to procure and bid. Everyone has got it wrong, as well as getting it right. Overall, a lot of them got it right, but there will always be examples of where they got it wrong.

Q145 **Sir Geoffrey Clifton-Brown:** I think you may have been in the room when John Collington was talking about, as far as possible, these large contracts being publicly available. Do you agree with that? Clearly, there are some details in a contract that are commercial and in confidence, for example the profit margin and maybe rates of pay and those sorts of things, but on the generality of the contract, would it be a good idea if, generally, Government contracts were placed in the public domain?

Baroness McGregor-Smith: The only thing I would say is when you are bidding for work, you want to make sure the knowledge and the innovation you are bringing—that is your competitive edge—aren't just spread out to your competition. You have got to be quite limited on what you give out. Really, it is down to the Government to decide if they want things to be more in the public domain. Then, companies can make decisions about whether or not they want to bid those contracts.

Q146 **Chair:** That brings me neatly to the relationship you have with the Cabinet Office. Of course, it is a while since you were at Mitie, but there is a relationship where they will need to know if there is a problem. With Carillion, you can see it from the papers if you have had a look at them, that there was ongoing monitoring by Government of what was happening in that company, so when things began to go wrong they began to look at what they could do to mitigate a potential failure of the company. Did you have a person you were talking to in the Cabinet Office, as well as what you were doing with your own suppliers? If you had had a problem—a cash flow problem or a profit warning come in—would you have alerted Government as a major contractor?

Baroness McGregor-Smith: I always felt I had a pretty open relationship with my Crown rep. I was quite relaxed about the information we shared.

Q147 **Chair:** Did you make it a priority? If you were discussing how to handle a big announcement, did you think, "Oh, I must make sure I talk to the Government"? Was that on your list?

Baroness McGregor-Smith: Absolutely. They are a customer, so yes. If it is a big announcement and they are a customer, you are going to be ringing them first.

Q148 **Chair:** So you treated them the same as you would any other large contractor.

Baroness McGregor-Smith: I would speak to them as a major customer of the business, which is incredibly important. I was recommending shutting a healthcare business, so I spoke to the CQC before I spoke to the public markets, which you would expect me to do. You have got to focus on your customers in business, therefore you talk to your customers and give them the information they need to make the right decisions. I think you can be very open about that.

Chair: That is very helpful. Thank you very much for generously giving of your time today. We will be publishing the transcript of this part of our session in the next couple of days on the website, uncorrected. Do have a look in case there are any obvious, glaring errors, though Hansard are excellent so that's rare. We will be publishing our full report on this stage of our inquiry before the summer. We have some other sessions next week with some of your previous competitors. Thank you for your time.

Baroness McGregor-Smith: Thank you very much.