

Public Accounts Committee

Oral evidence: Strategic Suppliers, HC 1031

Monday 11 June 2018

Ordered by the House of Commons to be published on 11 June 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Chris Evans; Shabana Mahmood; Anne Marie Morris; Bridget Phillipson; 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 Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 149–349

Witnesses

[I](#): Peter Neden, Chief Executive Officer, Care and Justice Services and Public Sector, G4S, and Debbie White, CEO, Interserve.

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 witnesses

Witnesses: Peter Neden and Debbie White.

Q149 **Chair:** Good afternoon everybody, and welcome to the Public Accounts Committee on Monday 11 June 2018. We are here today to look at the Government's relationship with major strategic suppliers, particularly in the light of the collapse of Carillion. To remind others, there were 28 strategic suppliers—of course, there are now 27, because Carillion is no longer one of them. Those are companies that have business across central Government of more than £100 million. We are talking today to G4S and Interserve, two of the companies that provide important public services paid for by the taxpayer but delivered through private companies under outsourcing, which various Governments have pursued over time.

I welcome our colleagues from the Ugandan Parliament, who are here to see how we operate; thank you very much. I am looking forward to meeting you more formally tomorrow. I hope you enjoy our session. We are not here for entertainment; we are here to get answers from our witnesses.

Peter Neden is the CEO of care and justice at G4S. I have had a couple of job titles for you, Mr Neden. What are you actually doing now? Can you describe it?



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Peter Neden: I am the divisional CEO of our care and justice business, so I am responsible for all our Government services globally. The vast majority of that is in the UK.

Q150 **Chair:** So you are UK-focused in your work.

Peter Neden: We run operations in a number of countries, particularly Australia and the UK. The vast majority is in the UK.

Q151 **Chair:** So you cover Australia as well as the UK.

Peter Neden: Yes.

Q152 **Chair:** Debbie White is the chief executive officer of Interserve. I think you arrived at Interserve in November last year.

Debbie White: In September 2017.

Q153 **Chair:** So not so new then—nine months in.

Our hashtag is #outsourcing, for anybody who is following on Twitter. Before we move into our main session, I just wanted to ask you, Ms White, whether there is any update on the Financial Conduct Authority's investigation into the way you have handled inside information and market disclosures on your energy from waste business. Has anything new happened since we read press reports about that?

Debbie White: No, there is nothing new. Just to remind the Committee, the FCA have commenced an investigation into the reporting at Interserve between the middle of 2016 and early '17 on the loss-making energy from waste contract.

Q154 **Chair:** We are aware of that. So there's no update?

Debbie White: There's no update. The investigation has commenced, and we are co-operating with them fully, as are the previous executive and the board.

Q155 **Chair:** Have they given you any indication of how long it will take to conduct that investigation and when we might hear something?

Debbie White: No, they haven't, although I have been informed by our advisers that it can take quite a considerable period of time. They have told us not to expect anything until the end of the year.

Q156 **Chair:** Okay. We will keep an eye on that one. Thank you very much indeed.

We are really hoping to get short answers from you today. We have obviously briefed up on this, so we don't need the whole narrative history of your companies and the contracts you are running. Colleagues will be asking direct questions, and we are hoping for clear and direct answers. We are particularly keen to explore some of the individual contracts you are running, but also the relationship you have with Government, how it is from your perspective, how things could be changed or improved, and what is working well. I am going to hand straight over to Mr Lee Rowley, who is going to kick off. Can you answer

the questions directed to you, please?

Q157 **Lee Rowley:** Mr Neden, can we start with some context? How many contracts does G4S have with the UK taxpayer?

Peter Neden: We have about 70 contracts with UK Government, and about 20 of them are with central Government Departments.

Q158 **Lee Rowley:** And the value of those?

Peter Neden: The total value of those is £660 million—so about 9% of the group as a total.

Q159 **Lee Rowley:** Has that been going up or down in the past few years?

Peter Neden: It has been reasonably flat.

Q160 **Lee Rowley:** In your view, or in your company's corporate view, what proportion are performing well, and can you define "well" for me?

Peter Neden: The vast majority of the contracts we have are performing well. By "performing well", I mean meeting our expectations, meeting the expectations of our client Departments, and providing services to the users of the public services we provide.

Q161 **Lee Rowley:** With the vast majority being what, approximately?

Peter Neden: We have a very small number of onerous contracts that are not performing well, from our point of view. There are two contracts in particular that are operationally very challenged in the custodial area. As I think people are aware, the custodial environment is particularly challenging at the moment, with much higher levels of violence than we would like to see.

Q162 **Lee Rowley:** So two out of 70 are challenging, and a minority are not performing well. What would be the rough number on that?

Peter Neden: I think it is probably three or four.

Q163 **Lee Rowley:** If you take the average set of contracts—let's pick a dozen of those contracts—how many, through their lifecycle, would fall into a "not performing well" definition?

Peter Neden: Our contracts range from a typical five years to the PFI contracts, which are obviously 25 years. Within a 25-year cycle, there might be perhaps two periods when we are in a very difficult operational environment. That is about what I would observe. If we are in a five-year contract, I would expect the contract to perform well throughout. Our expectation is to make sure that we only take on things that we can manage.

Q164 **Lee Rowley:** Your position would therefore be that, as a Committee, we should expect longer-term contracts to become dysfunctional at points, and that it is not their becoming dysfunctional, but your ability to get them out of being dysfunctional, that you should be judged on?



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Peter Neden: I am not sure that I would describe them as dysfunctional, but the two prisons that I am thinking about are in a very challenging operational environment. It is no different for other large local prisons, such as Exeter, Liverpool or Nottingham. I am not sure that that means that the contracts are poor in and of themselves. The operating environment is very challenging.

Q165 **Lee Rowley:** So there is no expectation that they automatically become dysfunctional at some point in the cycle?

Peter Neden: No.

Q166 **Lee Rowley:** There is no definitive expectation that that will occur?

Peter Neden: No.

Q167 **Lee Rowley:** So for the two that you referenced—perhaps you can name them for me—why do you think they have got to the place that they have got to?

Peter Neden: In all cases where we have challenges, the environment is more difficult, including the level of violence that we are experiencing. The cohort of prisoners that we are looking after are more prone to violence. That places an additional burden on staff—we have had challenges recruiting and retaining staff, which we need to attend to—and it has also placed pressure on our leadership team.

Q168 **Lee Rowley:** Your note, which you gave us relatively close to now, says that you only offer services where you have appropriate expertise. Presumably you have the appropriate expertise to manage those kind of issues in the prison environment, which is why you are contracted to do them.

Peter Neden: Yes, we do.

Q169 **Lee Rowley:** So why do you think those contracts are specifically in the place they are in?

Peter Neden: As I just said, we are experiencing much higher levels of violence than expected. For instance, in the children's estate, there are now only 900 children in custody. When we first took the Oakhill contract on, there were 3,000 children in custody. That is a great thing for society, but it means that the children we are looking after in custody are from the most damaged backgrounds and are the most demanding children. The same management team is running Oakwood prison, where I think we are doing groundbreaking work in peer-to-peer support for prisoners, to help reduce reoffending.

Q170 **Lee Rowley:** When was the last time that you reviewed the Oakhill contracts with the Government? You can't seriously be telling me that you are baselining everything from 2004, when Oakhill opened, or 2008, when you took it over.

Peter Neden: No. With all our Government contracts, we have a regular and robust review process every month. We sit down with our client and



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go through a very detailed pack of information that provides service levels on key indicators, such as time out of cell, purposeful activity, levels of education, drug testing and so on. We review that every month. I also review performance with the management team every month within the G4S business. We are also quite rightly subject to inspection by the inspectorate, and there is also an independent monitoring board, so the contracts are very regularly reviewed and scrutinised.

Q171 Lee Rowley: If they are very regularly reviewed and scrutinised, presumably they are reviewed and scrutinised in order to avoid problems being created, so why has Oakhill gotten into the problems it has gotten into?

Peter Neden: As I have said, the cohort of children that we are looking after are just more difficult than they were three or four years ago.

Q172 Lee Rowley: Are you seeking a contract renegotiation on that basis?

Peter Neden: No, we are not. We seek over time to make sure that the contract is operating in the way that it should and that we are focused on the right thing, but we are not seeking a contract renegotiation in the way you describe.

Q173 Chair: You say they are more difficult or challenging. Can you give us some examples of what you actually mean by that?

Peter Neden: Secure training centres were originally designed to hold younger children who had typically stolen cars. We are now dealing with 900 children in custody, and they tend to be at the more serious end of the spectrum of crime, so by their nature they tend to be more demanding.

Q174 Chair: Are they of a similar age range?

Peter Neden: We now hold children who are up to 18 in that facility.

Q175 Lee Rowley: If you are not seeking a renegotiation of the contract, presumably you believe that you are competent and able to deliver that contract.

Peter Neden: Yes.

Q176 Lee Rowley: If you are competent and able to deliver that contract, why is Oakhill in the place that it is in? I ask that question again. You have explained to me that there is a problem with a different cohort of youngsters, but by definition, if you believe you are able and competent, you must be able to deal with those youngsters. Otherwise, you would not be able and competent. How can you argue that you are able and competent on the one hand, but then tell me that the problem is the result of the people going through the system on the other?

Peter Neden: I am saying that the nature of the children has changed and we need to respond to that in a sustainable way.

Q177 Lee Rowley: If that response is not a renegotiation of the contract, that



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means you accept that you can deal with it, but you're not dealing with it. So what is the problem?

Peter Neden: We have an improvement plan that has involved changing the leadership of the centre. We are changing the way in which we recruit and train staff. We are changing the way the centre operates. We are improving the education facilities. We are changing the regime for the children. We are doing an upgrade of the facility to make the physical environment better. There are a number of things we need to do to make the Oakhill operation better, and we intend to do that.

Q178 **Lee Rowley:** But probably none of those came out of thin air. Given that you just told me that you are doing very regular reviews, which I would expect you to do on an almost day-to-day basis as a corporate entity, and you are doing monthly reviews with the Government, how did you manage to get to the place where you are? Surely it should have been arrested at an earlier stage.

Peter Neden: I wish that were the case, but we did not manage to do that.

Q179 **Lee Rowley:** And the responsibility for that was with people, the processes, management or what?

Peter Neden: I think the responsibility for that is primarily with ourselves as management.

Q180 **Lee Rowley:** At what point should I, as a not particularly expert individual, determine that you are incapable of managing Oakhill? Where would you say the service has to go before you demonstrate a lack of competence and a lack of ability?

Peter Neden: If we were unable to implement the improvement plan that we are working on, but we are making good progress. We have a number of indicators, such as the use of force and the levels of violence, and all those indicators are going in the right direction at the moment.

Q181 **Lee Rowley:** So your position, just so I am clear, is that it is absolutely fine for me to see lists of "requires improvement", and I should not judge you on that, but on whether they change next time.

Peter Neden: No, that is very disappointing and I regret that, but we need to put that right.

Q182 **Lee Rowley:** So if they are not changed next time, can I judge you as incompetent and unable?

Peter Neden: I think you would have to look at the circumstances at the time. As I say, we intend to put Oakhill right. We have the same team of people who are managing some very high-performing custodial facilities. Our intent is to make Oakhill operate to the same high standards.

Q183 **Chair:** If you are not renegotiating the contract, are you pumping money in from G4S, or are you planning to do it on the same money that you were originally contracted to do this on?



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Peter Neden: There is no constraint on our management team in coming up with what they need to do to make the contract run effectively.

Q184 **Chair:** So are you putting more money in to keep your reputation intact. It will cost you and your shareholders money, presumably.

Peter Neden: If it costs us money, it costs us money. For instance, we have increased the salaries of the staff, and we have had to do that at our expense.

Q185 **Chair:** So are you still making a profit on the contract?

Peter Neden: We don't give information on individual contract profitability, I'm afraid.

Q186 **Chair:** Okay, but would you be prepared to run a contract at a loss in order to protect your reputation?

Peter Neden: We have a small number of contracts that have been running at a loss. In no instance have we failed to deliver the service. We have a set of obligations to deliver service to a certain level, and we must fulfil those obligations. We have an expectation that we will make an acceptable return. If we've got that bit wrong, we've got that bit wrong, and we have to live with the consequences of that. That is what we have been doing on all our onerous contracts.

Q187 **Chair:** If you are making a loss on a contract, would you then perhaps decide not to bid for it when it comes to renewal time?

Peter Neden: We look at every single bidding opportunity on its merits. We seek to take on business where we have the skills and competence to provide the service, where we believe that we will have a client who is happy with that service, and where we have a risk profile that we deem to be acceptable. If we can meet those requirements, we will bid for that work. If we cannot meet those requirements, we will not bid for that work.

Q188 **Lee Rowley:** Just following up on that point, have you ever bid for a contract knowing that you will make a loss on it?

Peter Neden: No, never.

Q189 **Lee Rowley:** If you won't tell us the individual profit margins on individual contracts, which I understand, are your total circa 70 contracts currently making a profit or a loss?

Peter Neden: We are making a profit on our current portfolio of Government contracts.

Q190 **Lee Rowley:** Page 1 of the note that you gave us says, when talking about external providers and outsourcing, "the costs to the UK taxpayer have reduced...and this can only be a good thing". Can you tell me how you have determined that that is the case?

Peter Neden: In nearly every competition that I have been aware of, one of the tests that we have informally understood the Government to apply is that the costs would be lower than the alternative provision. Sometimes



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that is explicitly stated, but often it is more of an informal assessment. We have also looked at the information published by the CBI, where the CBI estimate that savings to the public purse are typically in the range of between 10% and 30%.

Q191 **Lee Rowley:** So the methodology you have employed to make that assertion is the fact that the contracts are being proposed for outsourcing, rather than your objective assessment that that is correct?

Peter Neden: In some cases, there is an objective assessment; we know for some of the prisons that we operate what the objective assessment is. We know for police custody suites what the objective assessment is.

Q192 **Lee Rowley:** What is the objective assessment for Oakhill?

Peter Neden: I am sorry, I don't have that information.

Q193 **Lee Rowley:** Do you have one?

Peter Neden: I have one for the Lincolnshire police, where we took on the whole of their back office.

Q194 **Lee Rowley:** Yes, you sent that as a case study. There are a lot of benefits in there that are projected rather than actual. Do you have one with actual benefits?

Peter Neden: That 13% saving was a joint assessment made by us and Lincolnshire police.

Q195 **Lee Rowley:** But it is jam tomorrow, not jam now, isn't it?

Peter Neden: No, this contract has been running for a number of years. That is what is being delivered.

Q196 **Lee Rowley:** All 13% is being delivered?

Peter Neden: Yes.

Q197 **Lee Rowley:** Excellent. In terms of the mature commission of services, which you have stated in your position, how do you think the Government become more mature in terms of what they do?

Peter Neden: There have clearly been mistakes made over the last few years; we have certainly made some mistakes. What we need to do is focus on sticking to the principles, quite well defined by the Cabinet Office, on clarity of objectives, on making sure that risks sit with the organisation best able to manage them, on proportionality of risk and reward, and on using a contract form that is appropriate to the contract.

I can give you an example from the Department for Work and Pensions, who have just run a very successful competition to renew their security arrangements. Instead of just running a competition for the price of security officers, which it would have been very tempting to do—we employ 3,000 security officers on that programme—they ran a competition based on the skills and expertise of the management team in putting in place an appropriate security regime, using a number of the Jobcentre



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Plus sites as test cases. They have now made a decision to appoint us to provide their new security regime, and we will put in place a whole technology change of access control, patrol and response, alarms and so on, and reduce the overall cost of security provision, while also improving the security of people who work in the Jobcentre Pluses and the people who use those Jobcentre Pluses.

Q198 **Lee Rowley:** One final set of questions from me for now. Do you deem yourselves a fit and proper supplier to Government?

Peter Neden: Yes, we do. We have been operating for over 20 years in this environment.

Q199 **Lee Rowley:** At the point of corporate renewal, a number of years ago, did you deem yourselves a fit and proper supplier when that happened?

Peter Neden: No, I think we had lessons to learn, and we went through a very constructive process with Government to improve the way in which we were operating.

Q200 **Lee Rowley:** If there were lessons to learn, does that mean you did not deem yourselves a fit and proper supplier?

Peter Neden: No, it meant that there were lessons to learn, and we went through a constructive process with Government to improve our operations and governance.

Q201 **Lee Rowley:** Let's take an academic scenario—let's not call it G4S or Interserve or Carillion. When would a corporate entity providing services to a Government not be fit and proper? What would they have to demonstrate in terms of behaviour?

Peter Neden: I cannot speculate on that. I believe that we run good-quality services for the Departments we provide those services to.

Q202 **Lee Rowley:** Let me give you a few. If that company was acting unethically?

Peter Neden: I cannot speculate on what that would be.

Q203 **Lee Rowley:** But you can. You are the expert; I am not. That is why I am asking you for your view, as a company, as to when you would consider a peer not to be fit and proper.

Peter Neden: Government has a set of tests—we go through that process every time we contract with Government, through the pre-qualification process—around our financial standing and the ethics under which we operate. It is appropriate that companies abide by those.

Q204 **Lee Rowley:** That is what the Government do. What is your personal view?

Peter Neden: It is in line with that. We operate under the City code; we have a set of standards and values that we operate to. As I say, we only wish to take on work where we have the skills and competence to provide a good service to our clients.



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Q205 Sir Geoffrey Clifton-Brown: On the two contracts that are going wrong—one in prisons and one in the children's service—to what extent have they gone wrong because you have not been able to recruit sufficient staff?

Peter Neden: Staffing is an issue whenever we have challenges in our custodial environment, so it is a contributory factor.

Q206 Sir Geoffrey Clifton-Brown: But you would never restrict the number of staff required in order to make a bigger profit; you would give your managers on the ground sufficient staff to be able to manage that contract.

Peter Neden: No, we would never do that. It is absolutely not in our interests; nor is it right to do so.

Q207 Sir Geoffrey Clifton-Brown: In reply to one of Mr Rowley's questions, you said that you would not seek to renegotiate the price on these contracts, but surely if there had been a material change—there has been a material change in both—you would be entitled to renegotiate the price of the contract. Is the reason why you are not doing so because you want a reputation for never renegotiating a price on a contract in order to bid for future contracts?

Peter Neden: We would look at each contract on its own merit, and if the contract we had entered into allowed us to go back and make changes, and there was cause to, we would do so. If we were in a contract that did not allow that, we would not. We will stick to the agreement that we have with our client in all cases.

Q208 Sir Geoffrey Clifton-Brown: Could I ask you two other questions? What is the average time you take to pay your suppliers?

Peter Neden: I think 80% of our suppliers are within 60 days, and we are signed up to the prompt payment code. We absolutely recognise the importance of paying our suppliers on time. They sit behind a number of our critical services, such as our asylum seeker programme and our employment support services.

Q209 Sir Geoffrey Clifton-Brown: For that 20%, would that be because invoices are disputed?

Peter Neden: There would be a whole range of reasons for this. I think the most important thing is that we pay to the terms that we have agreed and, of course, the number of days is just one aspect of those terms. It could be that we have negotiated a deal with the supplier on longer terms.

Q210 Sir Geoffrey Clifton-Brown: On pension fund deficits, the Pensions Regulator is taking a tougher attitude to pension deficits, particularly in light of the Pensions Act 2004. Is that placing you in a difficulty in negotiating? Are you in dispute with the Pensions Regulator over how you fund your pension deficit?

Peter Neden: No, we are not. We employ 570,000 people in 90 countries around the world. We have a whole range of pension arrangements across



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the world and in the UK. We have agreements in place with all our pension trustees, and we are in the process of fulfilling our obligations to the pensions.

Q211 Sir Geoffrey Clifton-Brown: That does not quite answer the question. The specific question was: are you in dispute with the Pensions Regulator at the moment as to how you are funding the deficit?

Peter Neden: Not to my knowledge. I am very happy to check and come back to you on that.

Chair: It would be very helpful if we could have clarification, if necessary.

Q212 Gareth Snell: Last week we heard from Baroness McGregor-Smith, who talked about her time at Mitie. She talked very candidly in one instance about low-balling contracts to win them and then potentially having to look at additional costs going up. I am not asking you whether you have come into that practice, Mr Neden, but from a cultural perspective within commissioning with Government, have you come across that, where expectations of a contract are so low that it is inevitable that you will have to increase in-year costs simply to meet demand?

Peter Neden: I cannot speak for others; my experience is that competition is always fierce, and that there is a right and proper emphasis on charges and therefore price—I think we are all taxpayers, so it is absolutely appropriate that price be an important part of any competition—but, as I said earlier, we have never, in your language, low-balled a contract. What I have read on Carillion just reinforces my view that we need to make sure we take on risks that are appropriate, and that we can manage, and that we price those risks appropriately.

Q213 Gareth Snell: I do not disagree with that, but one of the themes that I think is emerging from the evidence we have been privy to, and from the oral evidence we have heard in Committees, is that strategic suppliers benefit from collecting contracts from Government by being the most economically advantageous bidder, secure in the knowledge that at some point there may have to be new negotiations. Have you ever come across a situation in your organisations—Ms White, you might have had such a situation in Interserve—where you have looked at the tender specification or contract opportunity with Government and thought, “That is too little money. There is no way that they could deliver that service with that amount of money”?

Peter Neden: I do not think it is about just making a judgment about the money; it is about the whole basket of risks that we are expected to manage. In a number of cases over the last two or three years, we have simply made no bid for contracts that perhaps five years ago we might have bid for. It would not just be about looking at the money; it would be about the whole basket of risks.

Debbie White: I am happy to add something.

Chair: I think we will come to you in a moment.

Debbie White: Mr Snell did ask me—

Chair: Sorry, carry on.

Debbie White: Particularly where you are the incumbent and you know what the current vision is, when the RFP is put out that has a different service provision requirement, there is an estimate made of whether the services will be required under the new contract. You will see variations—not necessarily contract negotiations—as a result of the service specification being different from what is expected on the ground. That happens not just in the public sector but in the private sector.

Q214 **Gareth Snell:** Mr Neden, you said that there are things that you would not bid for now that you may have bid for five years ago. What has changed in that five-year climate that means that something that would have been seen as a viable potential contract with manageable risk five years ago is no longer something you would entertain?

Peter Neden: I think we have learned a few lessons about what we should and should not take on, and the terms under which we should do business. We are more sensitive to making sure that we only take things on that we have the skills and expertise to manage, and that we are managing risks that we are able to.

Q215 **Gareth Snell:** That does not really answer my question. What has changed? Presumably, you were doing that risk management appropriately five years ago as well as today. Has the risk profile changed in those five years?

Peter Neden: No, I think we made some mistakes.

Gareth Snell: Five years ago you were making mistakes.

Peter Neden: I think we made some mistakes, hence we have a number of onerous contracts.

Q216 **Gareth Snell:** When you are looking at contracts that come forward with risk management, without going into the commercial arrangement of your organisation, what is the thought process now that has changed specifically?

Peter Neden: I am not sure the thought process has changed. I think we are more sensitive to the risks that we might be taking on. We are much more sensitive to volume risk and what might happen as volumes go up and down in a contract. We are more sensitive to the scale and the nature of change that we might be taking on. If we do not feel that we are the best organisation to manage those risks, we will not bid.

Q217 **Gareth Snell:** On the source of contracts, we have discussed the very different nature of a contract that is hard or soft facilities management, where it is “build this” or “clean that”, from where you have a target to get so many people into work or through a capability assessment. Is the organisation’s approach to risk profiling for those different, or is there one risk profile that is applied to any contract for Government, because it



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is a Government contract?

Peter Neden: We ask ourselves the same question, whether it is a contract with the private sector or a contract with the Government. Clearly, there are differences between the risk of assessing the efficiency of cleaning a hospital, which is a risk that it is right and proper that we would be able to back ourselves on, and the risks associated with something like the Work programme.

Q218 **Gareth Snell:** When you look at contracts with Government, how amenable do you find Government to conversations about how contracts could be delivered? I often fear that in the public sector, both national and local Government, there is a potential for saying, "We have always done something in a particular way, so we want to repeat that," rather than, "We want an outcome, and there might be new ways of doing that could be better value for money for the taxpayer." As an organisation that has a significant number of contracts, how viable do you think that those conversations are with Government?

Peter Neden: I think that varies over time and by Department. In general terms, Government is a very sensible and mature commissioner of services, but equally, I don't blame Government for being very demanding in asking us to step up and take on risk.

Q219 **Gareth Snell:** Mrs White, Interserve has a number of varying contracts; if you saw a contract opportunity arise and you thought, "Actually, the Government have completely misplaced what it was they wanted to achieve"—a particular outcome—would you feel that Government were willing to have that conversation before they started to write contracts?

Debbie White: In principle, yes, but again it depends, Department by Department, and on who is letting the contract. In private sector contracting, you see much more dialogue taking place before contracts are put to the market, and that is something that could be learned by Government. You also see in the private sector the willingness to do pilots, rather than going in fully, 100%. Those are two things that could be practiced more in Government processes.

Q220 **Gareth Snell:** How much of that would you say is pre-tender conversation, as opposed to co-creation of an outcome once you have chosen a supplier?

Debbie White: You don't see very much co-creation of an outcome in Government contracting. You normally get a tender, which you reply to, in my experience.

Gareth Snell: Mr Neden?

Peter Neden: I think that's right. Generally, by the time Government Departments go to market, they have had those discussions, to the extent that they wish to engage in pre-procurement discussions. I think that is getting better—we see more pre-market engagement—but once we are into the tender process, we tend to be bidding on the specification given to us.



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Q221 Gareth Snell: May I ask something of everyone? The social value Act is a piece of legislation that allows the Government to look at the wider economic impact of their work, rather than just at the bottom dollar—or bottom pound. How confident would you feel if you wanted to engage in a conversation with Government about a broader piece of work on their commissioning to deliver greater potential benefits outside the very specific remit of the contract? How much do you think that Government would listen to those sorts of conversations?

Peter Neden: If Government want that to be part of the assessment—we have experience of that from America—they should just put it in the set of requirements, and we will respond to it. I see no philosophical difficulty with that.

Debbie White: I would agree with that. I think that the social value Act was a great thing to be implemented. Personally, as a taxpayer, I would like to see more of it used.

Q222 Gareth Snell: Finally, Chair, may I ask about the Crown rep system? How useful do you think that the Crown rep system is, in terms of providing a continual dialogue between Government and strategic suppliers?

Debbie White: Shall I go first?

Gareth Snell: Oh, it's that good, is it?

Debbie White: I personally found the Crown rep system very helpful in facilitating the dialogue. I am sure that there will be more follow-up questions, given that Interserve, over the last eight or nine months—

Chair: There will be a bit more conversation with them.

Debbie White: Yes. Even before my time at Interserve, I was with a supplier to the Government. The Crown rep system has worked very well. I think it has matured over time, and it facilitates the right level of dialogue. Certainly, in my personal experience over the last eight months, it has been a very robust process to be involved with Crown rep.

Gareth Snell: Good. I think that's me for now.

Chair: Okay, I shall go to Ms Mahmood, if I may. Mrs White, you will get your moment in the spotlight.

Q223 Shabana Mahmood: Thank you very much, Chair. Mrs White, this line of questioning is about your dealings with the Crown representative. First, to go back to the beginning of your story with Interserve, you were brought in after the profits warning of September last year. What was your initial assessment of where things were going on with the business?

Debbie White: I joined Interserve for a number of reasons; I did not know of the financial situation of Interserve before I joined. I joined Interserve because of their values—they have very strong people values—and because I thought they had very strong core businesses. What I found when I got to Interserve was that that was exactly right, and that has



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played out over eight or nine months: the values of the organisation are very strong and very centred around people and service, and there are three very strong core business lines.

What was not clear was that the average net debt day by day was increasing. That is what we found—I say “we” because the group CFO joined at the same time as I did.

Q224 Shabana Mahmood: And what was your assessment? You get into the business, and it is obviously a difficult point for the company. What is on your list of things to immediately get sorted? There must have been a series of underlying issues. A bit of further detail on your previous answer would be helpful.

Debbie White: Sure; apologies for that. The first thing was to make sure that the company had enough cash to keep trading, and the second was to make sure that it was performing against its contracts. Interserve has three different business lines; it has its support services business, its construction business and an equipment services business, and all three businesses provide things for the UK Government.

The first thing was to make sure that we had enough cash to keep on trading. The second was to make sure that our contracts were performing well. The third was then to build a business plan that would provide the basis on which further long-term funding could be provided.

Q225 Shabana Mahmood: Are you now confident that you have got to that point?

Debbie White: Yes. We presented our business plan to our lender population at the beginning of January. It was tested enormously by a whole host of advisers—advisers to every single part of our lender population. It was agreed that the business plan is a very sound, solid business plan, predicated not on driving margins up or growing enormously in areas that we do not have skills and capability for, but basically on doing what we do better and more cost-effectively, particularly in terms of overheads, and on disposing of small, non-core businesses that have sat around the outskirts of Interserve for a long time.

The financing was agreed at the end of April. We announced on 30 April our results for 2017, and we are now into implementation. We did start implementation in October/November, as you can imagine, because it had to absolutely be a self-help programme to make sure that Interserve could continue to fulfil its commitments to all its stakeholders, but most specifically our clients.

Q226 Shabana Mahmood: In relation to this population of people who were testing your rescue package or business plans going forward, how much involvement did you have with the Crown representative and were they able to test in the same way that your lender population were able to test your plans?



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Debbie White: Our engagement with the Crown rep started in October—I say “our”; I’m saying “my” engagement as the new CEO—and I took on direct responsibility for interaction with the Cabinet Office and with the Crown rep. We ended the year with fortnightly meetings with the Crown rep and other members of the Cabinet Office, and we proceeded to weekly meetings, including ad hoc phone calls and other meetings and calls, from the beginning of January.

In terms of them testing our business plan, we provided them, weekly, with an updated cash-flow forecast, which they did evaluate. They do have advisers within the Cabinet Office on restructuring; there are people employed within the Cabinet Office to look at that. They fully evaluated our—they had our business plan and all the feedback on it and our cash-flow forecasts and, obviously, the expected out-turn for the year. They had every bit of information that our lenders had been provided with.

Q227 **Chair:** Did they discuss with you the RAG ratings?

Debbie White: Yes, and I just want to correct something in my written submission; I think it implies we don’t know what our rating is. Actually, we do know what our rating is. We don’t know how it is derived. That was really what I was trying to communicate—not terribly successfully, I’m afraid. So yes, they do discuss with us our RAG rating, and we were told when it went to amber and when it went to red.

Chair: A very quick question from Mr Chris Evans.

Q228 **Chris Evans:** I was looking at the weekend, Ms White, at Interserve and especially investor tips, and a number are betting on Interserve’s share price going down. Also, the same people—I think it’s Marshall Wace—hold a large short position on your company at the moment. How concerned are you by the market at the moment, with that sort of news?

Debbie White: The Interserve investor portfolio is split roughly into three components. We have Coltrane Asset Management, who have been a long-term shareholder and have added to their shares over this period of time; they own about 27% of the company. We have Farrington Asset Management, a Dutch-based organisation. It split into two funds recently, and they together own roughly 10%.

The remaining 63% is held by retail investors. That is not an investor dynamic that you would want to see in the longer term, because the share price is dependent on very small changes in mood. The share blogs say x, y and z—there is a lot of speculation on the share blogs—and that tends to drive the share price. It is certainly not being driven by our larger investors, or by any new investors coming in. Part of the recovery plan is actually about talking to new investors—the funds you would expect to see owning parts of a UK plc—about joining the shareholder base.

I am not that concerned about it, actually. That might sound a bit flippant, but I am not being flippant. The variation is principally driven by retail investors. Our plan is very robust. We announced the first of our disposal sales in the last two weeks, which has brought in a significant amount of



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cash, and we are on track with the things that we are doing. We have to deliver our recovery plan, and I think the share price will respond accordingly.

Q229 **Chair:** Mr Neden, are you aware of the changes in your RAG rating?

Peter Neden: Yes, we are, but as Debbie said, we are not given the papers or the detail behind them.

Q230 **Chair:** You are just presented with it?

Peter Neden: Yes.

Q231 **Sir Geoffrey Clifton-Brown:** Were you given any opportunity to make representations against the change in RAG rating? That question is for both of you.

Peter Neden: No.

Debbie White: Within the red, amber, green system, no, we are not.

Q232 **Shabana Mahmood:** Ms White, let me go back to your meetings and discussions with the Crown representative. Going back to before you joined the company, when was the first time, to the best of your knowledge, that a representative of the company told the Crown representative about issues relating to the financial health of the business? Pre-profit warning, when were any issues first mentioned?

Debbie White: Before my time, I don't know. What I do know is that there were regular monthly meetings with the Crown rep and the Cabinet Office. We also have a dashboard, which provides all the KPI data on our contracts with the Government. They have daily access to that.

Q233 **Shabana Mahmood:** I appreciate that they know how the contracts are going and have an overall sense of performance. I am just wondering—

Debbie White: Before my time, I don't know. Of course, a UK plc is governed by the market abuse regulation, and that presumably dictated what my predecessor would have said to the Cabinet Office.

Q234 **Shabana Mahmood:** I think you joined at the point at which the monthly meetings became fortnightly.

Debbie White: We started the fortnightly meetings in October, yes.

Q235 **Shabana Mahmood:** And then they became weekly as you started to get into the rescue package. Did you yourself make a representation about a potential high risk rating?

Debbie White: We had a letter sent to us—not dissimilar to the Carillion letter, which I have seen in the papers from another Committee—about moving us to high risk, and we made a representation. I wrote back to the Cabinet Office explaining why I did not think it was appropriate—not least because we had already at that point established full transparency with the Government on everything that we were doing and on the financial

situation that the company was in. We were then informed that we would stay at red.

- Q236 **Shabana Mahmood:** Thank you; that is helpful. You just said “full transparency”; I am interested in trying to understand the differences in transparency between before your profit warning was issued and afterwards.

Debbie White: We do a 14-week cash flow, which is updated weekly. We provide the weekly cash flow statements and an update on all our conversations with shareholders and lenders. We also provide them with the business plan. You would not expect to see a business plan or a financial plan presented to the Government. All of that was shared together with all the information. That is probably out of the ordinary, but we had no issue at all with having that dialogue with the Government.

We also provided things about our work in progress and things like that with the Government. Those things perhaps should have been more front of mind beforehand but became very front of mind as we joined the company and started to look more deeply.

- Q237 **Shabana Mahmood:** Presumably, as you were trying to avoid being in the high risk category, it was in your interest to be more transparent?

Debbie White: Yes, I agree, but that is not why I would do it. My approach to doing business is to be as transparent as we can. The Government—the Cabinet Office—do not want to be insiders. For a period of time I guess they were, to some degree, because of the financial difficulties that Interserve was in, but I have no problem at all with being transparent with the Government.

- Q238 **Shabana Mahmood:** What is your current intensity of contact with the Crown representative?

Debbie White: I had a quick call with him this morning. We had our formal meeting last Thursday, where we discussed what the progress steps should be to get us from red to amber to green and what evaluation criteria the company suggests that the Cabinet Office holds us accountable to as it evaluates our position.

- Q239 **Shabana Mahmood:** Did you discuss your forthcoming appearance at the Public Accounts Committee with the Crown representative this morning?

Debbie White: I think I asked what the last account he visited was, just so I was really sure about which it was, because I knew he had visited about 10 or so since I had been here. I just wanted to be crystal clear about which account he had visited, because he is very active in our contract base.

- Q240 **Shabana Mahmood:** You are quite fulsome in your positivity about the process of the meetings with the Crown representative in your evidence. You then go on to say that the meetings with the individual Department teams for the individual contracts are much more limited. I am interested in that. I appreciate that your business has been in trouble, so I would



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expect the Crown representative process to be more intense. However, in the normal run of things, surely your discussions with the individual Department teams, for whom you are running the contracts, should be more intense and regular than your monthly contact with the Crown representative?

Debbie White: At contract level, of course, they are; they are our clients front and centre, from a contract perspective. I think it is much more difficult to engage with Departments at my level, for example. It is very difficult to work out where to go and who to see. Unfortunately, you only ever get contacted when things are not going well. Personally, I—and, I think, the leadership team of the support services business—would like more engagement. Going back to the conversation about dialogue and understanding where the Department might be going, that would be very helpful.

Q241 **Shabana Mahmood:** Sorry: let me just get this right. Let us take, for example, your CRC contract—the transforming rehabilitation contract—where you are part of a consortium called Purple Futures. You are saying that the individual team within your business running that contract has the day-to-day contact with the Ministry of Justice, but you, as the head of the business, don't have a good enough engagement with the Departments?

Debbie White: Yes, I think that is fair to say.

Q242 **Shabana Mahmood:** Do you think there is an onus on you to put that right?

Debbie White: Absolutely, although, as you say, we have been somewhat busy. I am in regular contact with the CEO of the Defence Infrastructure Organisation, for example, to talk about our MOD contracts and so on. So it does happen in some places, but I think more open dialogue with the Departments on where they are going and so on—more about the strategic direction—is really what I was talking about, rather than day-to-day contractual challenges.

Q243 **Shabana Mahmood:** Would you agree that the day-to-day contractual challenges probably give you a feel for where the sector is going?

Debbie White: Yes.

Q244 **Shabana Mahmood:** Okay; that is helpful. On your contracts with Government, I particularly want to talk about the Purple Futures piece of work. That contract has obviously run into trouble and the Government have had to bail out all the businesses involved in that procurement exercise. What is your current take on how that is going and what the progress is to date?

Debbie White: I think these are very challenging contracts and that there are quite a lot of things to be learnt from the outsourcing of the CRCs. Interserve does have a forward loss provision on a couple of the contracts within the CRC because they are loss-making.



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Again, with permission, this is something I want to share with the Committee: I think it is one example where having really good data is very, very important when you are outsourcing and I am not so sure that there is really good data available on all aspects of the services that were outsourced through the CRC programme. For me, the biggest takeaway there is making sure that there is really good data for everybody to see and for it to be transparent and visible.

Q245 **Shabana Mahmood:** Which is something we have heard before, and obviously we will pursue that with the Departments. However, as one of the companies who has bid for those contracts, where do you think the fault of the companies is? Not just the Government making mistakes with data—do you think there has been too much low-balling in this part of the exercise?

Debbie White: I am not sure it was clear what was being outsourced and what the expectations were. There is a real challenge when you are contracting using both inputs and outputs—that is quite challenging.

Q246 **Shabana Mahmood:** That is a significant problem—not really understanding what is being procured. So why, in your experience, do companies such as Interserve across the sector play this game? Why do they still get into the business of bidding for these contracts when the data is bad and there is no sense of what is being procured and what the outcomes will be? What is the point?

Debbie White: It is not necessarily clear that the data is not clear or complete when you are doing it. And, going back to social value, there is a genuine social value mission here to improve things—to make things better for offenders. A lot of the companies who went into this, including Purple Futures, genuinely want to make things better for society and for offenders.

Q247 **Shabana Mahmood:** I appreciate that sentiment. But if you think about Ministry of Justice contracts, this Committee hears on a regular basis about issues where the data has been wrong. Obviously we only see things when they go wrong, but we have never known all the data to be complete and perfect. How many times does the Ministry of Justice, for example, have to continue to get the data wrong before the companies say, “Do you know what? You never have your data right. We are not going to play this game until you have got your data 100%”. It is not ever a shock when the Ministry of Justice does not know how many windows are in a prison, or some other important detail to allow you to do your contract.

Debbie White: As I said, I think there are lessons to be learned from the CRC outsourcing processes for everybody.

Q248 **Sir Geoffrey Clifton-Brown:** Could I follow that up? You say in your evidence, “The quality of data provided by the procuring party is often sub-optimal; this can result in inaccurate pricing”. I know you were not there when your predecessors bid for this contract, but why would they have bid for the contract? Was it that they did not fully understand what



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they were bidding for?

Debbie White: I wasn't there—I will start by saying that.

Sir Geoffrey Clifton-Brown: I have exempted you; I am just asking for your opinion.

Debbie White: My interpretation is that people believed they understood what they were bidding for.

Sir Geoffrey Clifton-Brown: Fair enough.

Q249 **Gareth Snell:** Is it possible that it was a case not of the company not knowing what it was bidding for, but of the Government not knowing what it was procuring?

Debbie White: The strategic intent of what the Government was trying to do was clear: it wanted to reduce reoffending, and it thought this was one of the ways of doing it. But I go back to saying if you do not have robust data, it is incredibly difficult to measure progress, or not.

Q250 **Sir Geoffrey Clifton-Brown:** Have you, either in your present job or previous job, recommended that your company did not bid for a Government contract on the basis that either you could not make a profit on it or the intent was not clear?

Debbie White: Not in my current job, but in my previous job, yes, I have recommended that we do not bid for some contracts.

Q251 **Sir Geoffrey Clifton-Brown:** May I ask the same question of you, Mr Neden?

Peter Neden: Absolutely, yes. We have turned down bidding on a number of occasions in the last few years.

Q252 **Sir Geoffrey Clifton-Brown:** Two other questions, Ms White, which I asked Mr Neden and which you will have heard: although your pension deficit has come down a bit since 2016, it is still quite high. The Pensions Regulator is becoming more aggressive with companies that have pension fund deficits. Are you in dispute with the Pensions Regulator at the moment over that matter?

Debbie White: No, we are not. They were party to all the financial restructuring we did over the course of the last six months.

Q253 **Sir Geoffrey Clifton-Brown:** Thank you. What is the average length of time you take to pay your suppliers?

Debbie White: This is an interesting one for Interserve. When I joined the company, supplier terms were a little bit dispersed, if I can use that term. In October, we decided to aim to pay all our suppliers on 30-day terms, which is what we have signed up to do. That has stood us in very good stead as we have gone through our financial restructuring, as our suppliers have stood by us. Our goal is 30-day terms, unless there are disputes or explicit differences to that—for example, in the Middle East, where the terms are slightly different.

Q254 Sir Geoffrey Clifton-Brown: What percentage of your contracts today are being paid beyond the 30 days of your policy?

Debbie White: I cannot give you the exact figure; I would say it is very small. We are paying absolutely on 30 days.

Q255 Lee Rowley: Just a quick question on what you have both said about the types of arrangements of contracts from Government. I am getting a slightly different view from both of you, which is potentially legitimate, but I want to explore it a bit more.

Mr Neden, in your written statements you define the Government as “mature” and “effective”. You say, “Government is, in general terms, very clear on what is required by individual contracts and is effective at ensuring this is delivered.” Yet a moment ago you were just talking about how there were some serious deficiencies in the quality of data provided by Government as part of that set-up. Why do you think you have different experiences in that regard?

Debbie White: I am not sure I used the words “serious deficiencies” in data. It is possibly because we bid on different things; it could be that. My background is, a long time ago, financial, so I am very big on KPIs and data and understanding things like that. We also see a lot of contract variations because of poor data. That is the basis on which I made my comment.

Peter Neden: I reflect on Government and our private sector business, and in Government I would say that the rigour with which contracts are managed is very high. Possibly, we have chosen not to bid on a number of things where we were not satisfied that the risks were appropriate for us to take; the CRC programme, for example, is one of those that we chose not to bid on.

Q256 Lee Rowley: If I were to ask about the clarity of information provided to you in the last dozen specs that you have looked at as a company, what would be your description of that, from your individual perspectives—in one word?

Peter Neden: A single word would be “variable”. It ranges, but what I would say is that there is never any malice in that. We live in an uncertain world, and Government Departments are dealing with a lot of uncertainty themselves. One answer is to make sure that the contract is in a form that deals with and recognises that uncertainty. You could have pilots, you could have a period of learning, you could have grace periods before service credits are involved or you could have caps and collars on the particular variable that people are most nervous about. There are lots of mechanisms to deal with that in the contracts.

Q257 Lee Rowley: Do you think Government is flexible enough to employ those mechanisms?

Peter Neden: I think in the past, we have taken on risks that we should not. We have certainly done that.



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Q258 **Lee Rowley:** But now, as in the last 18 months?

Peter Neden: I would say the dialogue on this is improving, and Government is willing to talk and listen.

Q259 **Lee Rowley:** That is a very relative statement. Can I push you a little bit? Is it good or not good? It is important that you tell us. I know you are being careful in your choice of words, but it is important that we know whether what you are being asked to do is reasonable.

Peter Neden: It is absolutely right for the Government to be a demanding customer, so it is reasonable for the Government to ask. All the providers will draw their red lines in slightly different places, I am sure. It is completely reasonable for the Government to ask. If we are asked to do things that we don't think we can take on, we will say no. I happen to think that it is in the interests of the Government to end up in a place where the risks are appropriately managed, but it is not unreasonable for them to be demanding.

Q260 **Chair:** Do you tell the Government why you are saying no?

Peter Neden: Yes, we do.

Q261 **Chair:** Robustly?

Peter Neden: Yes. I would say that our primary relationships are with the client Departments. We consider ourselves very much part of the systems in which we operate. We are very much part of the police family in Lincolnshire and we are very much part of the prison system. We have a good dialogue with senior officials.

Q262 **Chair:** It is interesting that Baroness McGregor-Smith described in similar terms to you why Mitie said no to the CRC contracts—whereas Interserve went for it. However, at that point, it would have been almost too late for the Government to withdraw from that approach. It would have been a major policy reversal at the very least. By then people would have spent money on bidding, so there would have been a potential loss of faith with contractors.

Earlier, Debbie White talked about that interaction with suppliers involved in discussing how to shape a contract. Do you think that, when you give that feedback, it is too late in the day? Is there any point in the system at which you are able to give feedback that could actually shape a contract or the approach, which would perhaps make it better for the taxpayer?

Peter Neden: My encouragement to the Government is not to put themselves in processes so that they then lose flexibility in getting to the right answer, because we sometimes find that we are too far down the process, and that it has been set up—

Q263 **Chair:** Sometimes or often? You are both being very careful, but as Mr Rowley says, this is our chance, as a Committee, to push the Government to get better at outsourcing or to do something better than what is happening now. This is your chance to tell us candidly.



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Peter Neden: I would say sometimes, and my encouragement is to always maintain flexibility, to have the right contracting model and to make sure that we stick with the principle of the risk sitting with the organisation best able to manage it. If we step away from that, the taxpayer will be the loser.

Chair: Debbie White, do you want to answer that?

Debbie White: I agree with Peter—it should be always, not just sometimes. The reason I am focusing on the data point is because if the data isn't right, the price is wrong. It is as simple as that.

Q264 **Lee Rowley:** Can I ask a different question? I accept the framework within which you are operating as commercial suppliers, so without mentioning any names or telling me which Departments or telling me the timeline, give me an example of a really poor spec and say why it was really poor.

Debbie White: There was a recent outsource where the number of buildings that were to be included changed fairly regularly.

Q265 **Chair:** The actual number to do or the number that they thought they had?

Debbie White: I cannot comment on the detail.

Q266 **Chair:** Did they miscount the number of buildings or did they just decide to add more in or take some out?

Debbie White: The latter, from what I understand.

Chair: We have come across the other as well.

Debbie White: Getting details of employees was also incredibly challenging. I have a very strong view that, when we take on a contract, we should have at least spoken to all the people who are TUPE-ing to us before they join us. I think that is good practice. There was also a significant variation from day one in the number of people we thought we were going to get and the number of people we got. All of that creates variations and disputes, and it creates suppliers not being paid while the variations are being processed. It is a very challenging situation with contracts like that.

Q267 **Lee Rowley:** That is an example of the spec not actually reflecting the actuality. Do you have an example of a poor spec that asked you to do something that wasn't reasonable or was too complex?

Peter Neden: I will give one very simple example, if I may. We pulled out of a bid recently after a year of effort. The spec was very detailed but it also had a set of clauses that effectively said that we were undertaking to back the client changing its mind on what it wanted, in many ways. In the end, we cannot be experts in guessing what our client may choose to want in the future, so in the end we chose not to bid. I will give you a smaller example.



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Q268 **Chair:** Roughly what ballpark figure are you putting into a bid that you are spending a year on?

Peter Neden: Up to £1 million.

Q269 **Lee Rowley:** When did those caveats appear? Were they there at the beginning?

Peter Neden: They were there at the beginning and we were hoping that—through the discussion process and the negotiation process—that position would change. We were unable to win those arguments, so in the end we had to withdraw. I think that is a shame. I will give you another small example, which illustrates the point, and would not have changed the outcome of whether we bid or not. We were recently asked to take a bet on what the level of council tax would be. I do not set council tax. I do not think it is appropriate. That is one where I think there should be a pass-through element for that particular component of the cost structure. That seems a perfectly sensible thing for me to do, because we do not set council tax.

Q270 **Lee Rowley:** When challenged—without breaking confidence—what was the response?

Peter Neden: In that case, we were too far down the process.

Q271 **Lee Rowley:** Did they explain to you why they wanted to structure the contract in that way? What was the thinking behind that?

Peter Neden: I understand that the client's desire is to know exactly what the charges are going to be, which, as taxpayers, I am sure we would all wish to be the case.

Q272 **Sir Geoffrey Clifton-Brown:** In that example you just gave us of your year's abortive work, how many other companies were bidding for that contract and have the Government successfully let it?

Peter Neden: As I say, Government are, I think, robust commissioners of services. They are generally very good at keeping us in the dark as to the competitive field.

Q273 **Sir Geoffrey Clifton-Brown:** The gossip on the street would tell you. Have the Government let it or not?

Peter Neden: I do not know. I do not deal with that.

Q274 **Anne Marie Morris:** Corporate governance is, clearly, very important these days for any business. I was intrigued by the comment that you do not think the Government really use the Social Value Act, which is related, in the way that they might. Mr Neden, did the Government ever look at your approach to corporate governance before they instructed your contracts?

Peter Neden: Only through our process of corporate renewal, if we go back around four or five years, when there was a very thorough review of our corporate governance.

Q275 Anne Marie Morris: Ms White?

Debbie White: My understanding is that it is looked at annually through the review of strategic supply process.

Q276 Anne Marie Morris: But not, in a sense, that you can look at a piece of paper, but if you didn't engage with a business—

Debbie White: No.

Q277 Anne Marie Morris: Because the whole point of this corporate governance and social responsibility is what you, as businesses, are taking responsibility for above and beyond making money for shareholders. For example, how are you treating your employees? The pensions piece has been mentioned. What are you doing in your local community? I am surprised that you were not asked at any level, because a paper review is not really meaningful.

Peter Neden: We do a monthly review with the Cabinet Office, where we provide data on the service delivery of our contracts and any developments from a corporate perspective. Once a year, we provide an annual return to the Cabinet Office, which talks about service outcomes for the people who we serve, and the financial standing of the company and its governance.

Q278 Anne Marie Morris: That still sounds a bit superficial. It seems to still focus very much on the contract and the outcomes of the contract. Tell me, Mr Neden, in terms of your corporate responsibility, what steps have you actually taken with regard to the communities that are affected, where many of your employees are sourced from?

Peter Neden: We consider much of the work we do to be absolutely at the heart of the community. If we are running a prison in Bridgend in Wales, we are absolutely part of that community. We are offering employment.

Q279 Anne Marie Morris: What are you doing in Bridgend to help that community?

Peter Neden: We are a very significant local employer. We are working with local companies that are often small to medium-sized enterprises. We have a large range of voluntary sector organisations that we work with from within the prison. Of course, there is the work that we are doing with the men in our care in that prison.

Q280 Anne Marie Morris: Ms White?

Debbie White: We are very active in working with small and medium-sized enterprises. About 60% of our supplier base is SMEs. We also encourage volunteering within our organisation to give back to the communities in which our people live and work. Sustainability has been a very core part of Interserve values for many years.

Q281 Anne Marie Morris: What could the Government do better? I think it was you, Ms White, who said in response to a question from one of my



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colleagues that the Government do not take the social value Act provision as seriously as they might. We are looking at a contract for public service, and we are looking to see what part of it provides overall social value; that is in addition to the financial piece and the service being done. What could the Government do—it sounds like they are not doing it—to make sure that they take advantage of that opportunity in the 2013 legislation?

Debbie White: It could be contractual, rather than voluntary.

Q282 **Anne Marie Morris:** How would that work?

Debbie White: By requiring you to do certain things—to work with the third sector. There could be requirements in the contracts that are let.

Q283 **Anne Marie Morris:** Do you think it is necessary for it to be contractual, rather than something that companies like yours, dealing with the public sector, would do as a matter of course?

Debbie White: Personally, I don't think it should be contractual, because my values are in that space, but I can't comment on other suppliers in the sector.

Q284 **Anne Marie Morris:** Mr Neden, what is your company's take on this social value piece?

Peter Neden: Our view is that if Government want that to be part of the arrangements between us and Government, they should put that into our contracts.

Q285 **Anne Marie Morris:** So you would only feel obliged to take it on board if it was in your contract as a legal obligation?

Peter Neden: If there are particular things that Government would like us to do over and above the provision of the service, they should be captured in our agreement with our client. That does not negate the fact that we consider ourselves very much part of the system, and of the communities in which we operate. We consider ourselves to be integral to Wolverhampton, Rugby, Bridgend in Wales, and so on.

Q286 **Anne Marie Morris:** I am a bit shocked, to be honest—both as regards the Government and yourselves as contractors—that somebody has to tell you to do the right thing. What about issues to do with modern day slavery? Your turnover must be at a level at which you are obliged to look at your supply chain for any evidence of slavery. Do either of you do that? Mr Neden?

Peter Neden: Yes, we do. We take that very seriously.

Q287 **Anne Marie Morris:** What steps do you take?

Peter Neden: We are very clear, through our screening and vetting process, that all the employees that we work with have the proper length of history and that we know where they are from.

Q288 **Anne Marie Morris:** What about the subcontractors? The obligation

relates to the supply chain.

Peter Neden: And we oblige our subcontractors to do the same.

Q289 **Anne Marie Morris:** How do you test whether that actually happens?

Peter Neden: We have a rigorous process of checking that we carry out our audit and vetting process.

Q290 **Anne Marie Morris:** Who does the auditing and vetting?

Peter Neden: For the auditing and vetting of our employees, we rely on our in-house team, because they have the expertise, but this is an issue that we feel very strongly about.

Q291 **Anne Marie Morris:** I am very pleased to hear it, but what about the suppliers?

Peter Neden: The same: our internal audit team will go out and check our suppliers.

Q292 **Anne Marie Morris:** How much slavery have you found? I can't believe that the answer is zero.

Peter Neden: I am not aware of us finding any instances in the UK.

Q293 **Anne Marie Morris:** I am intrigued. I have done quite a lot of research into this, and it is unusual for a company to have none. Ms White?

Debbie White: I would say very similar things to Mr Neden. We do our proper vetting and evaluation; that is done by internal HR teams. We have not found any instances of modern slavery anywhere in our business.

Q294 **Anne Marie Morris:** What are your processes to ensure that your subcontractors take steps to check that there is no slavery?

Debbie White: All our subcontractors are vetted by our procurement team, and it is a very rigorous vetting process.

Q295 **Anne Marie Morris:** Can you tell me a little bit about what it is like? You say it is rigorous; what is rigorous?

Debbie White: I am very happy to send a follow-up to the Committee on that, if I may. I do not have the detail here with me, and I have not been in the role that long.

Anne Marie Morris: That would be very helpful.

Q296 **Chair:** On the wider point about SMEs, Ms White, you said that 60% of your supplier base is SMEs; is that right?

Debbie White: Yes.

Q297 **Chair:** Don't the Government require someone who is in a contract to let a proportion of their work to SMEs? Is that right? Have they done that in contracts that you have had?

Debbie White: Yes.



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Q298 **Chair:** Do the Government ever come and check that you have actually done what you said you were going to do when you bid for the contract?

Debbie White: In my time at Interserve, I have not seen them do that. Having said that, we have been somewhat distracted with other things.

Q299 **Chair:** I appreciate that. What about in your previous role, which was extensive?

Debbie White: Not to my knowledge.

Peter Neden: Some 62% of our suppliers are SMEs, and they represent 38% of the spend with our third-party supply chain. In terms of checking, I am not sure that they check, but we provide a return to that effect.

Q300 **Chair:** Do you provide a return voluntarily, or because the Government require it?

Peter Neden: I think they have asked and we have volunteered it.

Q301 **Chair:** It is not quite contractual, then. We have all come across examples that we could list—but we will not—of targets set but not evaluated. The other thing in terms of suppliers is that you are both passing down quite a lot of your work to other businesses. We have talked about SMEs, and there are others as well. Do you have a set percentage that you charge—that you take off the top, if you like—for the bit of work that they are doing? You are shaking your head, Mr Neden. Do you want to explain?

Peter Neden: No; we have everything from nothing to something.

Debbie White: No; we have everything from nothing to something too.

Q302 **Chair:** Presumably, you pass it down the line then because they are more expert at it, or because they have local knowledge? Could you give us some reasons as to why, as a company running public services on the taxpayer's pound, you outsource down the line? Talk us through that process and why you choose certain companies.

Peter Neden: We choose to do that where we think it will enhance our ability to serve the client. That might be, in the case of employment services, where a voluntary sector organisation has specialist skills with particular groups of people who have particular needs. We would use a specialist provider for that group of people. It might be in a prison where an organisation is very good at working with certain types of prisoner with particular drug habits, and so on.

Debbie White: As I have said, I have three different businesses. In UK construction, it is a subcontract market, so all construction in the UK is subcontracted, pretty much. That is the model that we operate in. In support services, it is where there are expert or specialist skills that are better performed by a subcontractor, such as specialist waste removal, which it would not be appropriate for us to do, or where someone is much better at doing it than we are and it is done in a safe and non-hazardous way.



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Q303 Chair: One of the concerns that has been expressed to us by some small businesses is that often, you get subcontracting chains, so the person or company that could be quite specialist at the bottom is getting the crumbs from the table. Do you have any comments on that?

Obviously, you will have negotiations about the price of a contract that you are letting to somebody, but the taxpayer is ultimately paying for the main contract. What is your comment on the fact that some companies feel that they are being pushed to a very low price, or to a lower-than-comfortable price? Do any companies walk away from working with you because they just cannot do it on the margins that you expect them to work on?

Debbie White: To my knowledge, no, companies have not walked away from us. I understand your logic and where you are going, because the taxpayer and the Government expect services at the best price for the service that is being delivered. The more you subcontract, the more the risk of profit margins being added in and services being more expensive. I am a strong believer in self-delivery, because that is what I think we are being asked to do.

Peter Neden: I am not aware, but I suspect that over the years, we have had negotiations that have not come to fulfilment. There must have been occasions where subcontractors have chosen not to work on particular programmes.

Q304 Chair: It is interesting to note that Interserve is nobly working towards the 30-days payment. I think you said that 80% of your suppliers are paid in 60 days—

Peter Neden: In under 60 days, and we are working to—

Chair: The Government's code of conduct for suppliers talks about the prompt payment code, which is 60 days with an aspiration to 30. Are you aspiring to move to 30 days?

Peter Neden: We are working towards that. If I can give an example, a large number of our subcontractors are actually landlords. For those people, we pay 15 days before the end of the month. In most cases, you are talking about services in January, with an invoice raised in February that is paid within 30 days. For our landlords, the service is provided in January and we pay them in the middle of January.

Q305 Chair: That is a reminder to us all to watch out for averages. It is interesting what Ms White was saying—that you believe you get more loyalty from your suppliers because they know that they will get paid. That is an interesting point.

Earlier, you talked about suppliers working with Government, and we have heard from other witnesses and in some of the evidence we have received about helping to shape a contract and its outputs with knowledge about what innovation could be brought in from outside expert suppliers. There is a danger, though, if you go down that route, that it could become a cosy chat. The civil service understandably has fears that



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a cosy relationship could be developed, meaning that it would then be difficult to do full, competitive outsourcing.

I wonder whether either of you have any comments about that worry, and about how you think, regarding the civil service and the taxpayer, there can be mitigation against cosy deals being struck. I bet it is great for you guys, if you are in there early on trying to shape a contract, because you are potentially going to be in pole position to deliver it.

Peter Neden: It doesn't feel cosy. It feels robust.

Q306 **Chair:** The point is that it isn't really happening much, is it—that they are having pre-contract discussions about how to shape the contract?

Peter Neden: There are some, but my point is that the competition always feels intense. I understand the dynamic here. On the one hand, Government wants to attract new entrants, to make sure that there is always fresh thinking. On the other hand, I think that Government need suppliers with proven capability and, indeed, resilience.

Imagine the prisons market: there are currently three operators of prisons plus the public sector running 15 prisons in the private sector and the rest in the public sector. It would be very different if every single one of those prisons was run by an individual company. There would be no resilience to be able to deal with difficulties. So there is a balance here between developing expertise that can then be rolled out more widely, having resilience within the supplier community and having new entrants. That is a delicate balance.

Debbie White: My comment on dialogue was actually about having all the potential people who wished to provide the services in dialogue, shaping something collectively rather than it being a one-on-one dialogue. I have seen that a number of times. I have been in outsourcing for 15 years now, so I have seen it done very well in the private sector, and I think there has been some progress in the public sector. But it would be better to have a broader dialogue. You would probably end up with a better and more demanding RFP as a result.

Q307 **Chair:** In the construction sector, I do not know how well embedded it got, but partnering became the name of the game for a while, with any benefits being shared. Do you think enough of that happens across Government in the way that contracts are drawn up at the moment? Is it something that—

Debbie White: In construction?

Q308 **Chair:** Not just in construction but, potentially, where you have profit shares, where there is a cap on your profits and anything over that gets shared back, or where you have partnering. I suppose it can go the other way. Partnering was always aimed at working together to drive inefficiencies, wasn't it, and then benefit both sides?

Debbie White: I think that in Government you see fewer risk-reward relationships. It tends to be risk and less reward rather than do better and



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more reward. There are not many contracts in my experience in which there is an incentive to do significantly better, and that goes back to Mr Neden's point about people wanting to know what the price is. A fixed-price contract is what people want to see.

Q309 **Chair:** If there were more of the alternative approach, do you think that would be better for the public service that you are delivering? I suppose your shareholders come into it too, but would that end up delivering some better results, potentially?

Debbie White: For some services, yes.

Q310 **Chair:** Can you name examples of services where it might work?

Debbie White: As I have said, I think that being clear on inputs and outcomes when contracting is really important. If, for example, the Ministry of Defence had a strategic goal to attract more people to join the military, you might want to see an output around the services that were provided for those people, actually improving engagement and retention and things like that. That is looking forward pretty far in the current environment, but that could be an example of an output whereby retention and engagement were rewarded, if you were providing all the facilities in a garrison or something like that. That is very forward looking, but you see some contracts like that in the private sector.

Peter Neden: Several of our contracts have gainshare mechanisms and I absolutely think that it is one of the ways that we could go forward. In the end, we just have to ensure that the contract form reflects the nature of the risks that are being managed.

Q311 **Lee Rowley:** A couple of points from me. You have both highlighted that you are or have been active in other outsourcing markets globally. How does the UK Government compare with other countries in maturity, ability to contract, management and so on?

Peter Neden: I would say that it is one of the most mature and developed markets for contracting public services anywhere in the world.

Q312 **Lee Rowley:** And it therefore compares favourably with others?

Peter Neden: Yes, I think that's right.

Debbie White: I agree, but I would encourage Government to look at what is done in other parts of the world. I have a saying that you don't know what you don't know. As matters evolve, there may be things—for example, in Australia there is the target price model.

Q313 **Lee Rowley:** Can you explain the target price model?

Debbie White: Well—

Chair: We are not expecting you to be an expert.

Debbie White: No, I am not an expert, but basically it means that enough diligence is done so that there is a view of what the target price



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should be. There is a dialogue about whether that is reasonable, and then contractors are expected to work within that.

Peter Neden: We don't have any of those, but I understand the concept.

Debbie White: We don't in Interserve, either, but I have seen the target price model and I understand that it is viewed as quite a good way of contracting Government services.

Q314 **Lee Rowley:** If you had to point at one piece of practice that you have seen elsewhere in the world that the UK does not do and that it should do, what would it be? If there is none, I am left assuming that the UK is the exemplar, and if the UK is the exemplar, everybody's got problems.

Debbie White: I think the target price model is worth looking at.

Q315 **Chair:** On the basis of the data that the Government provides?

Debbie White: But it would improve it, wouldn't it? It would require better data and flush out problems with data if there was a different view around.

Chair: I think it might take decades, but maybe I'm just a bit cynical, having sat here for too long.

Peter Neden: My perspective is that when the UK has done this well, it is as good as anything in the world. All I would encourage Government to do is stick to the principles and remain flexible on the right contract form, because it is when we depart from that that things go wrong, both for us as providers and for the Government as a client.

Q316 **Lee Rowley:** But there is no obvious key thing that Australia or anywhere else does that you think—

Peter Neden: There is no single magic bullet.

Q317 **Lee Rowley:** To ask a non-associated question, what is an example of a Government service that it is not appropriate to outsource?

Debbie White: Policy.

Peter Neden: I suspect that around this table, there would be a whole range of views on that.

Q318 **Lee Rowley:** Yes, but I am asking for your personal view.

Peter Neden: I suspect that one bookend would be powers of arrest. That is pretty difficult territory for outsourcing services. I suspect that most people would be comfortable with outsourcing the provision of catering in schools.

Q319 **Lee Rowley:** Has Government ever asked you to bid for something and you have looked at it and thought, "This is too complex to be adequately transferred into my remit"?

Peter Neden: There have been things that we have chosen not to bid for because of complexity and the nature of—



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Q320 **Chair:** CRC?

Peter Neden: There is a number that we have chosen not to bid for, but I do not think that that is quite in the category that you are alluding to.

Q321 **Lee Rowley:** Yes, you can choose not to bid for several reasons, but I am asking whether there is something that you have seen that is so flawed, inappropriate—whatever word you want to use—that you just do not think that the model could work in a public-private partnership or in outsourcing.

Debbie White: No.

Peter Neden: No, not that the model could not work, but that the proposed model would not work.

Gareth Snell: We keep hearing about big data, and the fact that some of the information that the Government hold that could make this process more efficient is just not really up to standard. I was wondering whether you would countenance, or have such tolerance for, that level of inefficient data if you were dealing with the private sector. With Government, do you approach those datasets and the potential pitfalls that come with them slightly more as , “Well, we’ll accept this because it’s the Government”, as opposed to if you were dealing with a large national private company?

Peter Neden: I think we take the same approach to both private and Government business.

Debbie White: I agree.

Q322 **Chair:** Mr Neden, in your evidence you said that the costs to the taxpayer have reduced for certain services; I think you say, “This can only be a good thing.” When Baroness McGregor-Smith gave evidence, she talked about challenges like the apprenticeship levy and the living wage, which have added base costs and therefore eroded profit margins; I think we were pushing her on whether low-balling was going on. Obviously, this impacts both your companies as well. Do you take all those sort of risks into account when you are bidding at a certain price, or have those also hit your baseline? Mr Neden?

Peter Neden: That would vary by contract. I think the national living wage is a very real risk that we’re in discussion with client Departments about reasonably actively, because the current guidance generally is for general change-in-law risk to sit with us as providers. I understand that, but where that then captures the national living wage—

Q323 **Chair:** And national insurance contributions?

Peter Neden: Indeed. Where the vast majority of the labour force that would be deployed—whether it was us or the public sector running the service—are employed on the national living wage, we don’t think that’s a bet that we should be taking; business is not in the business of taking bets.



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Debbie White: Yes. The Interserve margins have been hit by absorbing the additional costs of the things you've referenced. Again, not dissimilarly, we're in conversations with specific Departments on specific contracts where we think changes can be made.

If there's one thing that could be carved out, understanding how the private sector can implement social policy is really important in contracts, as is making sure that the private sector is able to do that. Changing law is black and white, unfortunately.

Q324 **Chair:** Both of you, particularly Ms White, have talked about the ethos of being a people organisation. You said you had added in money to a contract that was failing to increase salaries. You have talked about investing in staff and paying them the right rate for the job—a decent rate to make sure that you are attracting, presumably, the right quality and rewarding your staff. There is a lot of discussion about low wages and the fact that many people then rely on top-up benefits, which are paid for by the taxpayer. You are public service providers, arguably in the middle of all this. Is there some moral and ethical argument about making sure that you are paying people a rate on which they can live? Maybe that's beyond the boardroom and beyond your dividends, but is that in your mind at all at board level, or in the minds of the board?

Peter Neden: I am surprised sometimes that client Departments do not choose to specify that, but that is for them to specify.

Q325 **Chair:** So you expect the Government to specify what you pay.

Peter Neden: Well, the Government have specified, using the national living wage. If there is a political decision to do more than that—and it is political—

Q326 **Chair:** But 55% of Interserve's business is paid for, or funded, by the taxpayer. It's quite a bit less for G4S, because obviously globally you have a very wide reach. If we compare contracts, if you're trying to get good-quality people—I am being a bit provocative here—are you all trying to keep pay down, because then the competition will be at that rate?

Peter Neden: No, we are trying to get pay and remuneration right, to get the right people to do the job.

Q327 **Chair:** Yes, but you think that the Government imposing—as you would see it; well, as has happened—a national minimum wage, and in London a living wage, is curtailing your ability to operate in the market. Is that what you're saying?

Peter Neden: No, I don't see that as curtailing our ability. We aim to pay the right amount, and there is a whole different range of salaries and remunerations for the different roles that we deploy.

Q328 **Chair:** Ms White, on that point?

Debbie White: I think it is right that there's a national living wage, and we will pay above it where those skills need to be remunerated accordingly.

Q329 **Chair:** One of the cross-party discussions in recent years has been about the ratio of boardroom pay to individual pay. Is that something that your boards consider?

Debbie White: Yes it is.

Q330 **Chair:** What is the position of Interserve on that?

Debbie White: It is something that they review on a regular basis.

Q331 **Chair:** I think your shareholders have been concerned about your pay recently, or they might be raising it. How does that play in your company?

Debbie White: It is an interesting dynamic. Some 99.7% of the Interserve shareholders who have voted want me re-elected as a director of Interserve; 97% of them are happy with my pay, and my pay is determined by the remuneration committee. I was brought in specifically to do a number of things, and more beyond once it was clear what was required at Interserve, and the remuneration committee has determined my reward accordingly.

Q332 **Chair:** Does the board or you take any account of the difference between the lowest-paid person in your organisation and what you are paid? I recognise, of course, that they are different jobs so there will be a ratio, but does that figure at all?

Debbie White: Yes. Conversations are had at the remuneration committee about that, and the same happens with the gender pay issue.

Peter Neden: I am in a slightly different position on this one, because I am not running the whole group—the leadership team of the whole group is running a company that operates in 90 countries with 570,000 employees—and I don't sit on the remuneration committee, so I really don't know.

Q333 **Chair:** So helpfully for your board it obfuscates the exact pay ratios in the UK. One of your predecessors appeared in front of this Committee before I was chair, and talked about the desire to dominate the world; I think the aspiration was for G4S to be the largest employer in the world. Was there a rush for growth for some outsourcing companies, including G4S? Is that now, perhaps partly due to Carillion, reversing? Where is G4S in that thinking now?

Peter Neden: We're certainly not in a rush for growth; we are in a rush to take on things that we can manage and provide excellent service on, and to deliver what we have promised to do. If it doesn't fit within that, we will choose not to do it.

Q334 **Chair:** Are you planning to divest of any businesses? I am not asking you necessarily to give specifics right now. Or if you can that would be good.

Peter Neden: Over the last few years, the group has gone through a significant divestment programme. It is called our portfolio programme.

The Government business has not been part of that, and remains core to the group.

Q335 **Chair:** Ms White, you have been going through big changes recently.

Debbie White: We are not in a dash for growth.

Q336 **Chair:** A dash for survival?

Debbie White: We are in a dash for cashback profit; that is important to all our stakeholders, including our 75,000 employees, who have been front and centre in all the conversations we have had over the last eight or nine months. I can't comment on the sector. As you have mentioned, I was with another provider earlier, and there was not a dash for growth there either under my leadership.

Q337 **Chair:** It is interesting that we have recently seen Capita, which we are seeing next week, divest some of its business, and Mitie pulling out of care. Do you think we might be getting back to a position where companies specialise in things they are good at, rather than bid for contracts and then subcontract them, some of which we have seen across the piece?

Debbie White: The goal at Interserve under the new business plan is to focus on what we are good at and to do it really well. As I have said, that will mean a small number of small disposals around the edges. I think that is really important, because with focus you can do what you should be doing really well.

Peter Neden: It is the same for us. We have a set of skills and expertise, and we wish to deploy those where it is appropriate for us to do so. If it is not, we won't take the work on.

Q338 **Chair:** One of the big things for us as a Committee, and I think for the public, is openness and transparency. If either of you were running Government Departments, or if these contracts were run by Departments, there would be openness and transparency, and the National Audit Office would be able to go in and look at exactly what was going on. At the moment it only has access to the contractual bit, not to your actual business. The Cabinet Office Minister has talked in the House and elsewhere about the worry that RAG ratings are made public and that other information should not be in the public domain. Where do you draw the line on what should be in the public domain, given that this is business paid for by taxpayers, delivering public services and, in the case of prisons, delivering some very serious sharp-end services paid for by the taxpayer? Would you welcome more openness? We are often told by Government that commercial confidentiality gets in the way. Where do you draw the line?

Peter Neden: There is a significant degree of openness already in terms of the operation of our contracts. In particular, you mentioned prisons. We have the scrutiny of the independent monitoring board, monthly we have the scrutiny of the inspectorate and we have the scrutiny of the

client departments. We do provide a full set of operational and financial data to the Cabinet Office and to our client Departments.

Q339 Chair: Okay, so the Departments see it, but what about the taxpayer who funds you? Could they see more? We are pushing hard; we think transparency—sunlight—is a great disinfectant.

Peter Neden: There is quite a lot of information already about the services we provide and the charges we levy for those services.

Debbie White: All our Government contracts have KPIs attached to them—financial and operational—and that information is reported monthly through a portal that we have established for the Government to look at and use. It depends what objective you are trying to accomplish with transparency. As contractors, if we are performing well and in accordance with the KPIs, and that is reported to the contracting authority, that is good.

Q340 Chair: With Carillion and the problems that it was undergoing, some of it was very much in the public domain, such as the profit warning in July, which was obviously a big warning. We have published those papers, and I should warn you, or tell you, that we have the papers relating to your own companies, including the RAG ratings, but we have chosen at this point not to release them, although much of the information is in the public domain, I have to say. But we now know that had Carillion collapsed in December, it would have been chaotic for public service delivery and even more jobs and businesses would have lost out. Already, there are supply-chain businesses really suffering.

There is a danger, is there not? This important arrangement has emerged over years. The Government have a very close relationship with a private company; there is a cosy dialogue about your profit, cash flow and all the issues that might be affecting you at the time—you were obviously having weekly meetings recently with your Crown representative—but the supply chain and the people working in the company have no idea about what could be coming down the line. Do you not think that there are grounds for having more transparency for the taxpayer—more information out there? I just put it to you again.

Peter Neden: I absolutely understand the requirement to have more discussion about what is published to the taxpayer more broadly. There are issues about context and competitive confidentiality that we would need to work through, and about definitions.

Q341 Chair: Where would you draw the line? What are the bits that you really would not want to be out there, or that would damage your business if they were out in the public domain?

Peter Neden: We are concerned about anything that would undermine our competitive advantage, and that could be any number of things. I come back to the idea that there is scope for further discussion and agreement with industry more widely. We would welcome the chance to participate in that. Ultimately, if Government has a requirement for us to publish certain information that is currently not published—by published, I



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mean presented to the taxpayer—it has the ability to make that an obligation of the contract.

Q342 **Chair:** Where would the line have to be that meant you would still bid for contracts, even though some of that information—more information—

Peter Neden: We would have to assess that in the round.

Debbie White: I agree with Mr Neden. Anything that puts our competitive position at risk would be something that we would not wish to share. Going back to your comment about the dialogue being cosy, under no circumstances was any of the dialogue we had with the Cabinet Office cosy at all. They were—

Q343 **Chair:** You are talking about the recent times?

Debbie White: Yes. They were very challenging. That is the case with any conversations that we might have on contracts. As Mr Neden said, it does not feel cosy. We hold our responsibilities very—

Q344 **Chair:** If either of your companies fell over tomorrow in the way that Carillion did, there would be a very big impact across the public sector. Do you think that you are too big to fail?

Debbie White: I do not think that any company is too big to fail. What is really important is that the company, and all their clients, including the UK Government, have the right contingency plans in place for any eventuality, or for the most serious eventualities.

Q345 **Chair:** Do you have contingency plans?

Debbie White: Yes, we do.

Peter Neden: I think all the contracts that we have with Government have contingency plans. Our one direct experience of Carillion was where they were a subcontractor to us on a particularly important programme. We stepped in and took over all the staff. Service was not disrupted in any way at all, and charges have not changed. That is our only direct experience of the Carillion situation.

Q346 **Chair:** So if you collapsed, you would expect another company to come in and take over the prison you were running.

Peter Neden: There are arrangements in all the contracts.

Q347 **Chair:** For contractual transparency, which puts more information out there, you could put the price of a contract up. You have already explained policy on pay—national insurance and things such as that—which you feel should be a Government risk, not your risk. Would it drive up contractual price if you had to be more transparent, as part of the risk that you would feel you were taking on board?

Peter Neden: My view is that it would reduce prices if we did not take on inappropriate risk. If we are asked to take a bet on what the national living wage is, which I think everybody around this table would recognise—



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Q348 **Chair:** On the transparency point, if the Government said, “In your annual report and accounts, or through some other mechanism, you need to report more information to Parliament every year about the way your contracts are run and operated,”—perhaps it would fall short of profit margins, unless you have the target price model, although you never know—would you put your prices up to take account of the potential risk of putting more information out into the public domain that might be of benefit to your competitors?

Peter Neden: We would seek to cover the costs. I would hope that the provision of information would be something that we could do without changing our prices, but it would depend how onerous those requirements were.

Q349 **Chair:** So it is about the onerousness—the challenge of providing the data—rather than the fact of releasing the data.

Peter Neden: Yes.

Debbie White: Putting profit margins to one side, I would have no problem with sharing that information. It is very important that we are transparent.

Chair: That is very interesting, because we often hear from Government that commercial confidentiality stops them releasing information to us, and we tend to hear from companies what you have just said. Mind you, it is easy to say it when the Government is protecting your back by saying it will not release it.

If I may make a comment, unusually for me, we are moving into an era where it can no longer wash that very big multimillion-pound contracts that are paid for by the taxpayer and that deliver a public service are carried out behind closed doors where the taxpayer is unaware of what is going on. We are in an interesting space. We as a Committee are pulling this together. This will be the first bit of our work on this. We will produce our report before the summer recess on this stage of our inquiry into strategic suppliers.

The transcript of this session will be up on the website uncorrected in the next couple of days, so have a look at that. It is usually very accurate, because our colleagues at *Hansard* are world class. We look forward to producing our report. If we have any further questions, we will write to you about them. Thank you very much indeed for giving up your time this afternoon. I am sure you will read our report with interest. We hope to ensure that the system works better for the taxpayer.