

# Public Accounts Committee

## Oral evidence: Strategic Suppliers, HC 1031

Wednesday 13 June 2018

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[Watch the meeting](#)

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Chris Evans; Caroline Flint; Luke Graham; Shabana Mahmood; Layla Moran; Anne Marie Morris; Lee Rowley.

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

Questions 350–572

### Witnesses

[I](#): Rupert Soames, Group Chief Executive Officer, Serco, Philip Chalmers, Senior Vice President, Public Sector and Health, Atos and Sean Haley, Regional Chair, UK and Ireland, Sodexo.



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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: Rupert Soames, Philip Chalmers and Sean Haley.

Q350 **Chair:** Good afternoon, everybody, and welcome to the Public Accounts Committee on Wednesday 13 June 2018. We are here as part of our inquiry to look at how major strategic suppliers work with Government to deliver public services funded by the taxpayer. Just to remind everybody, there were 28 strategic suppliers—that's £100 million or more spent across central Government by that company—and there are now 27. You could sort of count Carillion in there, because it is still just about trading, but it is no longer part of that group, as it is going through liquidation.

We are here to talk to three companies today. I would like to welcome our witnesses. Sean Haley is the regional chair for UK and Ireland for Sodexo. Welcome to you, Mr Haley. Rupert Soames is the group chief executive at Serco. I think you have been there since 2014, Mr Soames. Is that right?

**Rupert Soames:** Yes.

**Chair:** And Philip Chalmers is the senior vice president for the public sector and health at Atos. Some of your companies have been in front of us before, but, from memory, I'm not sure any of you have been in front of this Committee. Mr Soames, you have—forgive me. I should probably have remembered that.

Welcome. We have obviously read the evidence you submitted in advance. Thank you for that. We do not therefore need that repeated today. We will be asking questions and hoping for clear answers. We are planning to produce a report before the end of the summer on this stage of our work, and we will see whether that takes us as far as we need to go. We are keen to see how the Government works with you, how you work with the Government, and what the benefits and disadvantages are to the current set-up.

To set some context, can each of you tell us how many people you employ and what your salary is? That is not because we are particularly interested in your salary, but it gives us an idea of the scale of the company. I will start with Mr Haley.

**Sean Haley:** We employ 34,000 people in the UK and Ireland, and 425,000 people globally. The UK and Ireland is a very big part of Sodexo. Regarding my salary, we are French-listed and comply with all of the regulations we need to in France, but that doesn't include disclosing my salary. If I could, I propose to write to you with that. I have no issue with disclosing it to you, but I would prefer to do that.

Q351 **Chair:** Could you give us a ballpark figure—the number of digits in your salary—just to give us an idea of the size?

**Sean Haley:** There are only three.

Q352 **Chair:** It must be more than three. Six?

**Sean Haley:** Well, six. I'm not trying to be difficult.

Q353 **Chair:** So a six-figure salary. Okay. Well, if you can write to us as well.

**Sean Haley:** I will. I will confirm that. I have no issue with that.

**Rupert Soames:** I brought my P60 along in case anybody questioned it.

**Chair:** Some inside advice, perhaps.

**Rupert Soames:** Last year, I was paid £2,312,174, on which I paid tax of £1,037,851.

Q354 **Chair:** Okay. How many people do you employ?

**Rupert Soames:** We employ 24,500 in the UK, and about the same again in the rest of the world. We have worldwide revenues of £3 billion. About half of our revenues are in the UK. We have 60 contracts with central Government, 119 with local authorities, three with the Scottish Government and one with the Welsh Government.

**Chair:** Thank you very much indeed for your candour.

**Philip Chalmers:** We have 100,000 people worldwide, with revenues of about £12 billion. In the UK, we have about 10,000 people, with revenues of £1.5 billion. I am kind of in a similar position to Mr Haley. My salary is six figures, and I am happy to write to you to tell you what that is.



**Chair:** We are surprised that you are so coy. It was not a trick question or a prurient question. It is just that a lot of your work is paid for by the taxpayer. As that is not the main subject of our hearing, I will let it go today, but we are interested in getting the information in writing. I am going to ask Layla Moran to kick off. What we are planning to do—just to warn you—is to start with you, Mr Soames, and Serco. Then we are going to talk to you, Mr Chalmers, then you, Mr Haley, and then we will have a bit more of a general discussion. We will stick roughly to that order.

Q355 **Layla Moran:** Mr Soames, you are in the news today saying that the Government is a bully. Why, then, do you want to work with the Government?

**Rupert Soames:** Because we work with Governments worldwide. That is our business. I know my language was candid, but on Monday you were asking for candid language. I think this is too important to obfuscate—to use soft language. We believe there are really important issues here. We did an analysis, which I am happy to share with the Committee, when the Cabinet Office challenged us and said, “So where are all these contracts with such heinous terms that you are telling us about?”. We produced a table of the 12 tenders that are either in flight or have recently been decided. Of those 12, eight had the “take it or leave it” clause: “You may not mark up any of these terms and conditions. They are the ones you take—like it or lump it.” Twelve had us being liable if any of the data that the customer had given us was wrong. Serco will be liable for any costs incurred as a result of any errors or omissions in information provided by the authority, including the cost of any remedial work. That was all 12.

Seven of them had completely uncapped liability, which enables the customer to bankrupt us if they like. All 12 had the requirement—bearing in mind that a lot of these are 10-year contracts—that we, the supplier, would take the risk of a change of law. So the Government gives us a contract and reserve the right to change the law in any way, and we have to bear that cost for 10 years—and Brexit is coming along when we are going to change all our laws.

One of them, which was my particular favourite, said that if as part of the procurement it subsequently turned out that the procurement was illegal—in this case, may have involved state aid—Serco would be responsible for paying any fines or duties, or covering any costs, including repaying up to £800 million of state aid.

Q356 **Layla Moran:** To dive into the bullying aspect a little bit, who exactly is the bully in this context? Is it the Department? Is it the Cabinet Office? Who is the bully?

**Rupert Soames:** You can say coercive. I use the expression that the Government is a bit like Bindu. Bindu was an elephant in Howletts zoo who successively, over a period of six months, killed two of its keepers. John Aspinall, who owned the zoo, said, “Bindu didn’t mean badly; she just doesn’t know her own strength.”



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I think the Government is sitting there and its lawyers tell it what it can possibly ask for in the best possible world. The lawyers are told that outsourcing is about transferring risk, so they seek, without any common sense or judgment, to transfer all risk. That is not the Cabinet Office. The Cabinet Office has issued specific guidance to Departments saying, "Thou shalt not do this. Thou shalt go and give accurate data. Thou shalt not go and impose onerous conditions." The Departments go and gleefully ignore it.

**Chair:** So it is the Departments.

Q357 **Layla Moran:** How has that changed over time? I note that in 2014 Serco reported that Ministers were improving in their ability to drive a bargain and claimed that the Government has got much more adept at writing contracts. On the one hand, you have a bullying culture or whatever you want to call it now, but on the other is an admission from yourselves that they have got better at it. Can you take us through how that has changed over time, and can you see the logic in their changing their ways?

**Rupert Soames:** I think it is a pendulum that has swung from Government being probably too soft and too nice and being given the run around. Part of it is that the commercial function has increased and the Government have discovered their power. Their power is that they have a lot of suppliers like us that exclusively supply the Government, or near enough, and the Government can basically can get what it asks for. If you turn round to us and say, when we are dependent on Government, "You take this or leave it," leaving it means, from our point of view, that I lose my UK business.

Q358 **Layla Moran:** How many of those contracts has Serco won, in the last two years, say?

**Rupert Soames:** Large? I'm struggling to think of one.

Q359 **Layla Moran:** Is it perhaps clouding your comments at the moment that you are not the one winning?

**Rupert Soames:** I think we are perhaps more gun shy. Remember, I was brought in after Serco had been through a near-death experience. I think there is a measure of us being more gun shy than others. We are very risk averse. Typically what has been happening on contracts is we have been winning on the technical side, but I hope that you give me some credit for actually having an interest beyond Serco's own interests. I am interested in good Governments in Britain.

**Chair:** We were certainly struck by the erudition and enthusiasm of your evidence.

Q360 **Layla Moran:** Indeed, it has been very helpful. On that, is this partly why you made the decision to leave the health and social care sector? Can you take us through what led to that decision?



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**Rupert Soames:** No, we are still in the health sector. We decided to leave the sector that involved needles—the actual provision of healthcare. We are enthusiastic cleaners of hospitals and porters of people—

Q361 **Layla Moran:** It is the human aspect of it that is high-risk. Is that fair to say?

**Rupert Soames:** No. We felt uncomfortable at the time. We came out of providing healthcare in—

Q362 **Caroline Flint:** Wasn't it out-of-clinic hours GP services that you came out of?

**Rupert Soames:** That was Cornwall—way before my time, we were out of there. We do not do any of those in the UK—

Q363 **Caroline Flint:** Is that because you could not guarantee to provide the clinical staff actually to do the job?

**Rupert Soames:** It was before my time. I don't want to duck with "before my time"; I have been there for four years.

Q364 **Caroline Flint:** I obviously appreciate, Mr Soames, that you came in at a certain time, but it is quite interesting how you have restructured the business, and clearly you must have been influenced by what happened before to decide that you would no longer go into certain areas. And I am just interested: is it between, if you like, facilities management—cleaning, catering and security—and other things in the defence sector that are not necessarily people-related, and then this area, where it is very much people-led? For example, you can think about the DWP helping people to find work. There seems to have been a contraction of Serco's interest in working in those areas—

**Rupert Soames:** No—to the contrary. There are some very specific things about medical liability. In terms of Suffolk, it was being caught between a rock and a hard place, the rock being the NHS and the hard place being social care in the community. And we found, being the only people in that chain who had a profit and loss account, limited ability and a firm contract, that we were getting squeezed appallingly badly. So that is the reason why we came out of that sector. But we do people things. We run six prisons in the UK. There ain't many businesses that are more people-oriented than prisons.

Q365 **Layla Moran:** To the process of bidding, where you could argue that a lot of the problems begin. Do you think the Government underestimate the scale and complexity of the work they are asking companies such as yours to do?

**Rupert Soames:** No. I think there are two very specific issues. One is, and this happens in the private sector as well, that the Government often does not know what it is asking people to bid for, because it does not have the data. Instead of doing what you would normally do in the private sector—and the CRC contract is a really good example of this—which is running a pilot, of actually going and establishing in a couple of regions



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how it would actually work, what happens is that a ministerial fiat says, "Thou shalt have it done in two years. Off you go!" A lot of this is not the civil servants' fault; it is impatience on behalf of Ministers wanting to get the "grand projet" done. We rush into things where there is simply not the data available.

The NHS thing that we will be talking to Capita about is a really good example. Why wasn't that piloted, to go and find out and learn? The answer is that it takes time.

**Q366 Layla Moran:** On that note, do you feel therefore that the contracts are too rigid when they are put out?

**Rupert Soames:** Yes. One of the questions that you have asked others is this: are there other places that do it better? To which the answer is, "Yes, there are ways of doing it better".

However, one of these things about rigidity is this complete "rabbit in the headlights" issue that Departments have about challenge under European rules, much of it completely unfounded—sometimes. But we were told on a contract the other day—seven years we have been running that contract and we have taken huge losses on it—that they wanted a one-year extension. We were told we could not change any of the terms and conditions of it, because there might be a challenge from one of the original bidders seven years ago.

**Q367 Layla Moran:** Was this PECS?

**Rupert Soames:** Yes.

**Q368 Layla Moran:** We will come to PECS later, because it is an interesting case. So, when you first take on these contracts and they are rigid, what is the mechanism by which you can go back to the Government and say, "This isn't working. There's an unintended consequence." How do you get that variation?

**Rupert Soames:** The lawyers take immense care to write out any possibility that you can do that.

**Q369 Layla Moran:** Really?

**Rupert Soames:** Huge care.

**Q370 Layla Moran:** So you don't even bother to try?

**Rupert Soames:** Massive care to say, "Thou shalt not come back. It's all your responsibility." My point is that it is not that the procurement system is bad; it has just gone too far. It has become lacking in any common sense. In any common-sense arrangement, contracts have flexibilities in them—they can move.

**Q371 Chair:** But there is flexibility the other way. For instance, with PFIs—you are involved with some of the big hospital ones—the contracts can be varied so that you do more and you get paid for that. But you are saying it just does not work the other way around?

**Rupert Soames:** Correct. They have been running for 20 years, and they were written at a time when flexibility was allowed. I am talking about the here and now, where the Government tells you, whatever the data is, "It's your fault."

**Chair:** So you are taking it at risk.

Q372 **Caroline Flint:** That goes back to my colleague's first question: in your opinion, does the Government underestimate the work needed? For example, if there is a cleaning contract and they have not really identified all the places there are to clean, or they think there is a one-size-fits-all solution to finding accommodation for asylum seekers—that Blackpool has the same access to accommodation as Blackburn, or as London for that matter—that is about them underestimating the challenge of the work, isn't it?

**Rupert Soames:** I do not complain about the pricing, and I do not complain about the margins; I complain about the non-commonsensible transfer of huge and unmanageable risk. If you take the example of COMPASS, we were told to expect to look after 7,000 asylum seekers in the north-west, Scotland and Northern Ireland. We are now having to look after 17,000, and we are stuck between the rock that is UKVI saying, "Here are 17,000 asylum seekers," and local authorities, where the Government has decided not to use its statutory power to force local authorities to allow us to provide accommodation. Essentially, in an area that is not far different from when we were looking after 7,000, we are looking after 17,000.

There are ways around that, and we work with the Government. I do not complain. It has cost us a fortune—we have lost more than £100 million on that contract—but I am not complaining about that. If we count the number of bricks wrong or get wrong the calculation of the rent that we are going to have to pay on COMPASS, that is down to us, but it is different if things suddenly come in like the council tax doubling or the Government not getting behind us to force recalcitrant councils to act. We have 5,500 asylum seekers in Glasgow and not one in Dumbarton, because Dumbarton will not take any. The Isle of Bute, on the other hand, has 17 Syrians. Lots of people want to have Syrians, because you get much more money for looking after somebody from Syria than you do a normal—

Q373 **Caroline Flint:** That goes to the Government not working with local authorities, doesn't it? It goes back to the question of whether they underestimate the work needed.

**Rupert Soames:** It depends—

**Caroline Flint:** I think it would actually be quite helpful to answer, "Yes," to the question, "Does the Government underestimate the work?", but there we go.

Q374 **Layla Moran:** If there are ways to innovate within these contracts, are you able to do that without pushing the cost envelope? That is obviously





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the issue. There is a set amount of money that Ministers have in their settlement from the Treasury, so they have a limited amount of scope to push costs up, but if you found other, more innovative ways of doing things that kept it within that envelope, would you be able to do that?

**Rupert Soames:** Normally we have a fixed price, and how we go and deliver that is kind of down—and a lot of the innovation we do is around doing things better, faster and cheaper, and trying to work out ourselves how we can deliver things. Innovation should be part of a package. Again, we tend to run into the thing that, as soon as we go in and say, “Look, we’ve got this really good idea. We could do it differently. I tell you what, if you give us a bit of slack there, we’ll give you some innovation over here,” we might get challenged.

Q375 **Layla Moran:** Very good. Moving on to other places, we note that your ventures in Australia seem to be very well received over there. Is there something you are doing well, or is the ecosystem better in Australia than here?

**Rupert Soames:** I think the answer you were given on Monday was basically that there is not anything wrong with the UK system; it is about how it is applied. You can take any system, good or bad, and apply it well or badly. On this very specific point, the current system—in which the Cabinet Office’s writ does not run with the Departments, and Departments effectively go and do what they like—is a fundamental thing. The system is okay; it just does not work.

I think that there are other countries that do it better and differently. We employ 8,000 people in north America. We provide the eligibility testing for Obamacare. We just won a \$900 million contract for providing that. That started off as a cost-plus contract; it has now morphed and been renewed into a thing where half of it is fixed price. They have taken a sort of gradualist approach and I think that that works well.

In Australia, what I would say is that they do far less what you might call mechanical scoring—where you go and tot up the scores there, and tot up the scores there, and you get 86.2%, and you win, and on 86.1% you lose. It is more in the round. They check your past performance. They reference you. They take a more rounded view, perhaps.

Actually, a lot of them copy what we do in the UK. PFI2 is *toute la rage*, you might say, in Canada and in Australia, but they maybe apply it with a bit more sense.

Q376 **Layla Moran:** In the past you have described Serco as being an intermediary between Government and SMEs. Is that fair to say?

**Rupert Soames:** I think that the idea that SMEs are going to enjoy the process of dealing with a Department red in tooth and claw— I mean, they look up and say, “God, if all the big companies are losing hundreds of millions, why would I want to do that?” Actually, it works very well when you use companies such as us. We have 3,200 SMEs in our supply chain;



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22% of our Government income goes through to SMEs. We do not put on them the terms and conditions that the Government put on us.

Q377 **Layla Moran:** Oh, I see. My next question was, what is the value that you add? If the Government went directly to the SMEs and asked them to deliver some of these services?

**Rupert Soames:** Do you know what? I would not dare look an SME in the face and say, "I expect you to put your house on the line for this job." I have shareholders, who put their money on the line, to the tune of £750 million that we spend, raised to go and fulfil our obligations. I cannot ask an SME to do that.

Q378 **Layla Moran:** My last question is about the inclusion. How aware are you when your RAG rating changes?

**Rupert Soames:** They tell us.

Q379 **Layla Moran:** Are you confident that you know how to get from red to amber to green and so forth? Are you very clear?

**Chair:** How good is the dialogue?

**Rupert Soames:** We have been through all colours of the rainbow, pretty much, including infrared.

Q380 **Chair:** But not black.

**Rupert Soames:** We have been, in the words of the song, "Back to Black". We have struggled up the ladder to green, which we are really proud of.

Q381 **Layla Moran:** What struck me from your written evidence was that you wanted to include the RAG ratings a bit more formally in the bidding process. However, you can tell me whether there were times when you were red that you were awarded big contracts. Do you think in hindsight that that was not a good idea?

**Rupert Soames:** No, what I am arguing for in my written evidence is that it should be taken into account. If you are marked out of 100, give somebody who is green 2 points, somebody who is amber 0 points, and if somebody is red, you take 2 points off their rating. The idea that you would buy something from somebody with no reflection at all on their prior behaviour—who would do that?

Q382 **Chair:** The Government always say they can't do that. Repeatedly, over at least a decade, they keep repeating that they can't take that into account.

**Rupert Soames:** They can. Sorry—I am sure they are right.

Q383 **Chair:** You are very emphatic. It would be interesting to hear why you are so emphatic one way and they are so emphatic the other way. Can you give us a bit more information?



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**Rupert Soames:** As long as you publish what your criteria are in a bid, RAG ratings are there and they are arrived at, I don't see what is to stop the Government saying, "We will include an allowance for your RAG rating in all your tenders." It would be the one thing that would give the Cabinet Office heft with its suppliers. As I said, the point about the supplier management system is that it is an oversight system, not a management system, because they have no heft.

Q384 **Caroline Flint:** Earlier, Mr Soames, when my colleague was asking about what contracts you had bid for in the last couple of years, I think you indicated that that had not happened and it was unacceptable to bid for those contracts. If you found it unacceptable to bid for those contracts, do you think others, who accepted those contracts, are doomed to fail?

**Rupert Soames:** A contract was awarded recently where the other contractor was tens of millions of pounds cheaper than us. We will not know who was right and who was wrong on that for two or three years. It takes time for these things to come out. It is more than possible that we were wrong and that it could be done cheaper. That is the point of testing in the market. Bear in mind that, other than Carillion, I do not know of a single large supplier that did not stand its corner and take its losses when they were given to it. We have spent £443 million more on providing services to the taxpayer than we have been paid over the last four years, because we have a simple thing: "If we went and made a mess-up, we shouldn't have signed the contract. It may have been unfair, but we've done it and we stand by it."

Q385 **Caroline Flint:** In your evidence to the Committee, you mention that you think there is too much emphasis on the Crown representative. Will you say a little more about who scares you most? Is it the Crown representative or the person in the Department who is meant to oversee the contract?

**Chair:** I am not sure Mr Soames is easily scared.

**Caroline Flint:** Who causes you more sleepless nights? You might sleep very soundly.

**Rupert Soames:** I do not do scared, but—

Q386 **Caroline Flint:** Who makes you answer the phone quicker? Whose texts will you take, and whose will you ignore?

**Rupert Soames:** I never ignore a text. My answerphone says, "Rupert Soames from Serco. How can I help you?" They do different jobs. The Crown rep is, as I said, there to do a different job from the commercial head of the Department or the permanent secretary. I just think you have to treat them that way. But in my view it is certainly true, as I said in my evidence, that the Government is not getting value out of the considerable strategic investment it has made and the considerable investment that we make in servicing this system, except in times of crisis, when it works really well.

Q387 **Caroline Flint:** I had a look through the RAGs from about 2014 to date,



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and it struck me that quite a lot of the information in them is in the public domain anyway. There are quite a few references to *FT* articles, I have to say. I am sure that is the case for other strategic suppliers as well. I just wondered what weighting you give to these reports. Does it worry you if you have a red-red?

**Rupert Soames:** We do not get to see them. I know what our RAG rating is, but I do not get to see them. I would prefer to, but I think a customer is entitled to have a private conversation among itself—

Q388 **Caroline Flint:** Do you think it would help your relationship with the Government if you were able to see these reports?

**Rupert Soames:** Marginally. I think it would help our relationship more if the Government were able to deliver on what it said it had done.

Q389 **Chair:** If you were able to see them, wouldn't the danger be that your lawyers would just argue the toss on them?

**Rupert Soames:** That is the difficulty with my proposal, if there is a difficulty—it is pure and brilliant in every respect. The answer is that if you tell people, "If you get a green rating, you get plus 2 on your tenders," the lawyers may come and argue the toss. I think the Government should be big enough to take that. We have a view. They are a customer, so they are entitled to a view, but it has to be a transparent view.

Q390 **Caroline Flint:** During this period, there were a number of reports from newspapers suggesting there were concerns about your share price falling dramatically and problems with a number of contracts, which were costing more than anticipated. One of the things about the Government Departments overseeing these contracts is how much they are on top of that and how much they should alert you and, more widely, other Government Departments that may have contracts with you about their concerns. How much do you think the Government should be on this? Also, how much more transparency should there be with the Government about the financial decisions that you are making and your overall financial position, and whether that information should be shared with others in the procurement chain, who may not have sight of some of those issues?

**Rupert Soames:** I bear the scars of close Government invigilation of a crisis, like what has happened, because people thought that Serco might go bust. The Cabinet Office brought everybody together. It was incredibly impressive. When the fish all turn and point in one direction, the Government have enormous power and enormous heft and work really well. It is when it is all sort of not situation normal that it all becomes a bit chaotic, but they were absolutely on top of our refinancing, when we raised money. They absolutely put the word out. There is, anyway, a Government day once a year where they go and share things. The commercial people in Government get together and share stuff, so when we were red rated, everybody in the Government knew it, and—guess what?—we didn't win so much.

Q391 **Chair:** You say they are on top of it, but if you had looked them in the eye



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and told them a barefaced lie, or been economical with the truth, or had been a bit more bullish about your position than was the reality, would they really have been able to see through that? Would they have had the evidence to get to the truth? Obviously, if you have shareholders, you have to be as bullish as you can. Part of your jobs, the three of you, and part of the reason you get the salaries you get is because you have got to protect that reputation.

**Rupert Soames:** No. Would I have been able to hide from sight?

**Chair:** Serco is perhaps not the best example, because you were in a pretty bad state at that point.

**Rupert Soames:** Anybody can hide anything, but why would you?

Q392 **Chair:** Carillion was quite bullish that it was in a better position than it was.

**Rupert Soames:** Until it all happened and it had a big profits warning. To expect the Government to see through that is really hard, which is why I propose as part of our four principles that there should be a living will. The Government need to be on top of what they are going to do if they want to get out of a contract and transfer it to somebody else, so it runs more smoothly. As we are on Carillion, I don't know if there has been a single floor that hasn't been cleaned or a meal that hasn't been delivered, because they got their act together on the contingency planning. It could have probably been done a bit better, but that is why I want to have living wills, so that the Government have some protection against that.

Q393 **Caroline Flint:** Have you ever been in a situation—perhaps not yourself, Mr Soames, but Serco—where it has leant on the Government not to do something because it puts the overall company in a precarious position?

**Rupert Soames:** I came in when all the sort of political stuff had happened and the tagging contract had been taken away from us and everything like that. I came in to try to establish how we were going to get on to firm ground. No, I never asked them to do something. I think they are quite sensitised to this; that they are in a position, when a company gets into trouble, of damned if you do and damned if you don't. They have got to be, because they have access to inside information that is highly valuable. Everybody knows that. My own reading of the situation on Carillion is that everybody was watching the Government really, really closely—the banks and everyone were waiting to see, because if the Government started going and shaking that tree, everything would go off very quickly. That is why when it did go pop, it went really fast.

Q394 **Caroline Flint:** Can I spend a little time focusing on one contract? I would like to focus on the PECS contract, which is escorting prisoners from place to place. On average, Serco transports 24,000 prisoners per month. I think there are 1,200 people involved in facilitating that, as well as a fleet of nearly 200 specialist vehicles.

In 2013—I know this is before your time, but it is an ongoing issue because the contract is up for renewal in 2020—the Government called in



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police to investigate claims of fraud involving the contract. Evidence was found that prisoners had been recorded being delivered ready for court when they were not, which was a key measure of performance for the contract. Could you take us through how that happened?

**Rupert Soames:** What—how an unsubstantiated accusation of fraud was put to the company?

Q395 **Caroline Flint:** I don't think there is any denial that there was misreporting, or missed entry, of prisoners being escorted, because the company paid back some money on it. The firm said in 2013 that it would repay its profits on the contract for transfers in London and East Anglia since 2011 to the value of £2 million. It also chose to give up future profits on the contract, which was due to run, I think, at that time until 2018. Although, I think, the case for the City of London Police has been dropped in terms of fraud and criminal proceedings, there clearly was a problem on this contract. Do you agree with that?

**Rupert Soames:** I never spent five seconds looking at that. I was interested in picking up a contract that was not delivering enough prisoners on time to court. We were having dock failures where courts were sitting and the prisoners were not there. It was relatively rare, and we have significantly improved the performance contract.

When I arrived in this company, we had endless numbers of failing contracts, which we were failing to deliver on. If I may say so—this is tribute to my colleagues, not to me; I have just sat on my bottom and done nothing—we now do not have a single failing contract with the Government. We are green rated, and on PECS we are delivering despite—

Q396 **Caroline Flint:** Obviously you have come in, and it is evident from things that I have read about your management that you have changed some approaches to the company's work. You are not necessarily vying for as many contracts as Serco, as a company, did in the past. You have divested yourself of a number of loss-making businesses. Clearly you have taken a different approach. I am interested in what you have learned about how Serco was approaching public contracts in the past that was leading to significant failures in the delivery of those contracts and, quite frankly, in some cases an underestimation of the costs involved, leaving Serco out of pocket.

**Rupert Soames:** I think that the problems in Serco pre-2014 were quite widespread. The hamster was being made to run round the wheel too fast. There was a management team that had promised to have very rapid growth, and it was a perfect storm because the management team was promising ever-growing profits, and the Government was getting ever-better at writing contracts. The two came slamming together.

When I came in, I bought the equivalent of my year's salary in Serco shares at £3.46 a share. When people say, "Did you know what you were getting in at?" £3.46 a share says no; the share price is now at £1. I don't think the board knew exactly how things were running, so the first thing to



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do was to make sure that the board knew—that operationally we were much more on top of it.

I think you have to decide when you are coming in whether you are going to spend endless time worrying about what went wrong, beyond analysing it to say, “What do we have to do better?” I have concentrated on doing the latter. One of the things I thought was a problem was that you got punished for producing bad news. My colleague Angus Cockburn and I went up the Serco High Street saying, “Bring out your dead.” There was a frightful twitching of lace curtains as people decided whether they were going to tell us, and then suddenly all these coffins came flying out through the roof.

We had a great moment where we took £1.5 billion of write-downs, where we were able to go and create a new thing. The important thing is that we have never stepped away from a commitment to our customers.

**Q397 Caroline Flint:** I think in July 2017 you said it would place an undue significant strain on the group if you were to continue to want to rebid for the PECS contract, but I think there has been a change in approach on that. I think Serco intends to rebid for the contract.

**Rupert Soames:** I do not know where you got that quote from me. I would never have said that extending PECS would have put the group in danger. It results in us continuing to lose money, and I would be trying to persuade the Ministry of Justice of the wisdom of not extending the contract and making us take another £10 million of losses, but hey, we’ve taken £443 million of losses so far. They have the right to extend. They will extend. They have extended, and it is their right to do that. We will put our shoulder to the wheel—or, rather, to the prison van.

**Q398 Caroline Flint:** Looking again through the Crown representative reports—I am not saying you are necessarily alone in this as a strategic supplier—there is quite a lot of this extending of contracts. I understand some of that is because contracts are often offered for five years but at the three-year break point there is a discussion about moving forward. That is not necessarily a bad thing, but is there anything you would like to say about extending contracts? If that becomes too common, it might actually contribute in some ways to pushing out competition and potentially innovation in those areas.

**Rupert Soames:** One of the imbalances is that this right to extend the contract is one-sided. I would like to see that change. It is perfectly reasonable for the Government to say, after five years, “We’re enjoying this. Can we have another five years of it?”, but you, the supplier, do not get any choice in that. The rule is if we, as a supplier, are losing money and the Government know it—and they do, because they get the accounting—they know that it is going to cost them more if they go to the market, so they will extend it. A better balance on that would be good.

**Q399 Chair:** You talked earlier about a living will. Were any contingency plans being put in place when you were going through your rights issue?



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**Rupert Soames:** The Government went round to every major Government contract and said, "What will you do if Serco goes bust?" They did it twice. They did it when I arrived, which I thought was slightly insulting, and they did it again when we had a rights issue.

Q400 **Chair:** How much did Serco co-operate in that? Obviously they can talk to other suppliers, but if you are running the services, you would have to co-operate in a handover if something had gone wrong.

**Rupert Soames:** The law in the UK is very clear on this. I got talked to by some very senior Government people who were worried about this, and I said, "Listen, the law is very simple. The people will TUPE back to the Government. The Government will get them back. We would co-operate in any way that you wanted in order to facilitate that transfer." I just think that it would be helpful if that were formalised.

Q401 **Chair:** We will probably come back to this a little later. You talk about the losses that you are making—you just mentioned the PECS contract. Does that threaten your future in your position? How long can you keep making losses and stay in post?

**Rupert Soames:** We went to our shareholders and said that we had to write off £1.5 billion and take about £480 million of contract losses, and asked, "Could you please give us £700 million to go and refinance the company and allow us to stand by those losses?" That was four years ago. We are, as we speak today, within 3% of that original number. They have not got worse; they have been a bit of a mix and match around the place. Our balance sheet now is one of the strongest in the industry. We have no pension deficit. From that point of view, we are in a very sound place.

**Chair:** We are going to come on to pensions a little later.

Q402 **Sir Geoffrey Clifton-Brown:** A very quick question, Mr Soames. You complain about Government bullying and unfair contract terms, but it is a free market. In your time, how many contracts have you declined to bid for?

**Rupert Soames:** Quite a few.

Q403 **Sir Geoffrey Clifton-Brown:** Can you quantify that?

**Rupert Soames:** No, I cannot, but I can think of one that we have just been excluded from, which was an MoJ one for education work in prisons. We have dropped out of that one. We look at maybe two or three a year on the terms and conditions. There is another that we are about to go and no-bid.

As you say, it is a free market, but it should not be the objective of the Government to make the terms and conditions so penal that small companies dare not go anywhere near them and even big companies like us turn around and say we don't want to bid for it. That is not because we can't do it or don't have the capability, but because the terms they are asking for are completely unreasonable.





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Q404 **Chair:** You made those points very clearly in your evidence, which was obviously picked up by the media, and again today. Given that, do you have any conversations within Government when you are pulling out, and are you able to feed that back through the system?

**Rupert Soames:** Yes.

Q405 **Chair:** Do you think that anyone in Government is listening to your concerns?

**Rupert Soames:** As I said, I raised these concerns with the Cabinet Office, who said to send them a letter with examples, which we have done. As I say, it was on 12 contracts and their terms. I think that the dialogue or narrative is that this isn't a problem because they had issued a prior information notice. We are saying that it is a problem, because the Departments are just ignoring it.

**Chair:** You have made your points again, here and in the media.

Q406 **Sir Geoffrey Clifton-Brown:** Mr Soames, would it be a problem for you if I asked you to write to the Committee with all the contracts that you have declined to bid for since you have been in your position and the reasons why?

**Rupert Soames:** No, I don't think I would—if you will excuse me, you may wish to put me on a rack and pull me, and eventually I will—

**Chair:** It is a genuine question.

Q407 **Sir Geoffrey Clifton-Brown:** We are here to learn, and improve the Government's procurement system.

**Rupert Soames:** It is a letter that we have sent to the Cabinet Office, detailing the contracts on which there were terms that we consider are just—

**Chair:** You have repeated some of those concerns.

**Rupert Soames:** You would have to ask the Cabinet Office for that letter. We would have no objection if you asked them for it.

Q408 **Chair:** There is no commercially confidential information in there that you would have a problem coming out?

**Rupert Soames:** Presumably, you would undertake to keep it confidential.

**Chair:** On that basis, we may well seek to obtain it.

**Rupert Soames:** I think you would find it quite informative of the widespread—

**Sir Geoffrey Clifton-Brown:** Thank you very much.

**Chair:** You have made your points again very firmly. Anne Marie Morris is going to move on to Mr Chalmers and Atos, so you will get a break, Mr



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Soames; we will come back to you shortly.

**Q409 Anne Marie Morris:** Mr Chalmers, I am going to focus very much on the Government's perspective, in terms of what they did, why they did what they did, and how you see that. My colleague, Mr Graham, will then look at your side of the contracting—what worked, what did not and so on.

You are, so far as I can see, primarily a systems and IT business. The Government's window, if you like, was looking for something quite different. That is certainly true of some of your contracts with DWP. Those contracts, with regard to PIP and ESA, involved quite a bit of people management, including of some very vulnerable people. I am slightly surprised that the Government had criteria broad enough to consider you for those sorts of jobs. How did Government spec the potential bidders and limit the inappropriate ones?

**Philip Chalmers:** You are quite right to spot that. We would probably look at it a bit different from the other companies. In the UK, we are about 80% technology services and digital transformation and about 20% the kind of outsourcing that you have been talking about today. In fact, globally, we don't really do much of that outsourcing; it tends to be just in the UK.

The origin of it was in Benefits Agency Medical Services, which was in 1998. That was outsourced in totality to what was then Sema, which was taken over by Atos. We were doing that from 1998 through to 2008, when incapacity benefit, the assessment for which was the main one carried out, was replaced with work capability assessments for ESA. So, we were in that space from 1998, when PIP came in.

**Q410 Anne Marie Morris:** While I appreciate what you are saying—you are in that space—from the Government's perspective, the contracts for ESA and PIP were a bit different, in the sense that you really were dealing with some very vulnerable people with a system that had just changed, and which, to be honest, I suspect not everybody fully understood. I am still surprised by that. My question is, how did they look at your track record and your ability to deal with these sensitive, people-based issues when dealing with these vulnerable people?

**Philip Chalmers:** I come back to the original point. We had been doing work with a similar group of people from 1998 to 2012—for 14 years—so we had the experience and we had the people. We had TUPE-ed across all the people from Benefits Agency Medical Services, so we had a lot of the healthcare professionals. As we went through the natural procurement process, we clearly convinced the Government that we had the necessary skills and capabilities.

**Q411 Anne Marie Morris:** Just so I understand what the Government were looking for, what criteria did they set, which you then met?

**Philip Chalmers:** Oh, goodness. Is this for PIP in 2012?

**Anne Marie Morris:** I am looking specifically now at PIP and ESA.



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**Philip Chalmers:** I will try to recall the specific area. It was about whether you had the right number of people and whether those people were in the right locations. Bear in mind that PIP was split into four geographies, and you had the opportunity to bid for one or more. The way that you intended to do it was also put forward. There are three types of assessment: you can assess on paper, or you can ask people to come into assessment centres, or you can carry them out at home. Those were the criteria for how you manage that mix. It was about whether you had the right people.

Q412 **Anne Marie Morris:** After you put forward your proposal, to what extent did the Government scrutinise your bid to make sure that what you said was actually true? Did they do any due diligence on it?

**Philip Chalmers:** Again from memory, they talked to people that we had been working with on WCA and its predecessor—IB.

Q413 **Anne Marie Morris:** That sounds fairly cursory to me. So they did not do formal due diligence. They didn't turn over the stones and look across the piece in a constructive way at whether or not you had the skill and the resource to deliver on the project.

**Philip Chalmers:** It was a very lengthy procurement. In fact, it was two procurements. The procurement started, then it fell before the election, and then it started again. So when you say due diligence, you are talking about weeks of face-to-face competitive dialogue, where procurement professionals and professionals from DWP drill down into every aspect of what you are proposing. So I wouldn't characterise it as a lack of due diligence.

Q414 **Anne Marie Morris:** Okay, but what you are saying is that the due diligence is about what is on paper and what someone says to you, as opposed to actually going out and having a look.

**Philip Chalmers:** You say going out and having a look, but bearing in mind that PIP was a brand new policy and had never been there before, it wouldn't have been possible to go and have a look at where somebody was doing that already. All they could do would be to look at where we were doing something similar. DWP was able to do that, and in fact knew us extremely well from the work we were doing with them.

Q415 **Anne Marie Morris:** Surely they must have needed to look at the new elements in what you were offering. If you were saying, "This is the resource we have got. This is the physical resource, and this is the people resource," surely there should have been some auditing of that.

**Philip Chalmers:** As part of the procurement process, they would have satisfied themselves that that evidence was there; yes.

Q416 **Anne Marie Morris:** By doing what?

**Philip Chalmers:** I do apologise—it was 2012, so I can't remember the process exactly.

Q417 **Chair:** I was a member of the Committee in 2012, and your company



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appeared before us. There were promises in the bidding documentation—a promise, for instance, of premises that never materialised, and it turned out that they had never really been signed, sealed and delivered as an option, and yet they were something that the Government expected. So we had people travelling long distances, people arriving at buildings that were inaccessible. There had been over-promising on the bid by quite some margin. I remember it being quite an uncomfortable hearing for the representative of your company at the time.

**Philip Chalmers:** I remember what you are talking about now. There was a debate about whether they had a complete list of supply chain members, because we do deliver some of the work ourselves, and we deliver some of it through SMEs and some through NHS trusts. There was a question raised by you as to whether these supply chains were fully signed up at the time, or whether it was an intention to sign up.

Q418 **Chair:** To pick up on Ms Morris's question, can you remember—or tell us—what due diligence Government put in, to ensure that the promises that you made were concrete and deliverable? Surely, it cannot simply go on trust.

**Philip Chalmers:** I genuinely cannot remember what went through in 2012, but normally the analysis and scrutiny of large-scale bits of that is pretty intense.

**Chair:** It is often of the contract itself, but what about visits and so on?

Q419 **Anne Marie Morris:** It is not just about the contract; it is about whether you have the capability, the skill and the resource to deliver. I sat on the Work and Pensions Committee at that time, so I looked at it as well, and there were some glaring errors in terms of properties that did not have lifts in for disabled people, who then lost their benefit because they could not attend their interview, through no fault of their own. It seems to me that before you get to contract, the Government should have been asking, "Have you thought through what you need to deliver on this? Do your properties have facilities for lifts?" and so on. Those are the bits that, at the moment, I am not satisfied happened.

**Philip Chalmers:** Okay.

**Anne Marie Morris:** Okay, fine.

Q420 **Chair:** There must be somebody in Atos who remembers that time. Will you send us a note about what due diligence was taken?

**Philip Chalmers:** Taken by the Department in 2012?

**Chair:** Yes, because we gave you a hard time in 2012, but we are also keen to see what Government's role was in that. There is a tendency, which we see often on this Committee, for Government to focus on the detail of the wordings of contracts—every dot, comma, if, but and maybe—but perhaps not to look at the practical reality of delivery. That is not always the case, but we see enough of it to know that it could be an issue. So it would be helpful if you could go back, look at that and



provide us with information.

**Philip Chalmers:** I will do that.

Q421 **Anne Marie Morris:** To take you to the next stage, how did you go about negotiating contracts and establishing KPIs? I am particularly interested in the comparison, because Mr Soames paints a picture of “take it or leave it.” I am intrigued: what did you get by way of “take it or leave it”? What did you get in terms of, “These are the KPIs; like it or lump it”? Or was there a genuine negotiation?

**Philip Chalmers:** Again, are you talking specifically about PIP?

**Anne Marie Morris:** About all of your contracts. By all means highlight differences. It would be useful to know, if there were differences between how different Departments addressed it.

**Philip Chalmers:** There has been a tendency in the last two or three years for “take it or leave it” to be more prevalent in contractual terms. The way that procurements have been structured is that at the early stage, when you have multiple, maybe 12, bidders—I am mostly talking about technology services contracts—they will put out a draft contract with Ts and Cs, and try to nail that down at that early stage, but you will lose marks for any significant mark-up that you do on it. You are at the very beginning of the procurement process. You are keen to get to the next stage, when you will start seeing the meat of the detail, because so far you have only had a high-level view. You have not spent very much money at this stage, so you are keen to continue, but you are effectively being asked to just sign off what is there and it is then effectively frozen. When you get further down the line in the procurement, you have the ITN and detailed specified requirements—everything is there—but you do not get to go backwards, and basically it is done. From the Government’s point of view, it seems like a smart thing to do.

Q422 **Anne Marie Morris:** As a commercial businessman, would you think that is a smart thing to do?

**Philip Chalmers:** We take a lot of pain in our Government contracts, but we now regard that as a ticket to entry.

Q423 **Anne Marie Morris:** Effectively, it sounds like the Government are adopting a tick-box approach. It is cutting out the way back. You are all then forced by the fact you have this contract. You have almost said, “Well, we can do it whatever it is and we don’t mind what you put us with.” Did you never think, “I won’t be able to renegotiate that when I actually have the information from Government as to what they really want”?

**Philip Chalmers:** I think Mr Soames put it well. There was a pendulum swing from 20 to 25 years ago. The contracts were seen as being too heavily in favour of the private sector. It has swung the other way. Now, we see terms that we have to sign up to if we want to do business with Government. We try in vain to get rid of things such as uncapped, liquidated damages, but they are always put in there.



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Q424 **Anne Marie Morris:** But is it good business to operate in that way—to sign up knowing full well that you will be shown a bag of tricks that is actually a very different prospect for delivery?

**Philip Chalmers:** The detail of the delivery itself will be in additional schedules later. What we are talking about sits in the commercial and financial Ts and Cs that are done right at the beginning. As I say, they are tough; they are onerous. I cannot remember the last time I had a public sector contract that did not have a termination for convenience, for instance—not a termination because you have done something wrong, or a termination for a breach, but a termination for convenience, which is, “We would like to terminate you.” It is only one-sided. That is there. We are now used to that within the company, and I take that to our legal department every time we bid for a contract or win a contract and they say, “We expect to see that now.”

Q425 **Anne Marie Morris:** Are pricing and penalties also nailed down at that early stage, or does that come later?

**Philip Chalmers:** That comes later.

Q426 **Anne Marie Morris:** So you then have some flexibility, once you have seen what you are actually being asked to do.

**Philip Chalmers:** In terms of the price?

**Anne Marie Morris:** Pricing and penalties.

**Philip Chalmers:** Yes. Some elements of the service credit regime may be in the early stages, but the majority of the detail around the service delivery itself would come later.

Q427 **Anne Marie Morris:** In terms of performance management once you have entered into the contract, what did the Government do to try to look at whether you were delivering, and whether you could continue to deliver, given what you were doing?

**Philip Chalmers:** Contracts across the board are pretty detailed—sometimes you have 200 KPIs, and you have detailed service level agreements. They differ slightly from contract to contract, Department to Department, but there is usually a fairly strict and robust performance management regime in place. We have a contract manager who meets weekly, fortnightly or monthly depending on the contract. You are held to account on the SLAs and the KPIs and you are penalised if you do not meet them. That is fairly standard.

Q428 **Anne Marie Morris:** Do you always get penalised, or are there times when the Government just wants to get the job done?

**Philip Chalmers:** If we have agreed to a service credit regime that has penalties and we do not meet it, we expect to be asked to pay them and we pay them.

Q429 **Anne Marie Morris:** Given the process of RAG rating, has there been a time when you have been in red?



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**Philip Chalmers:** Yes, we had a period in 2014. It was the very early stage—it was two things at once. We were exiting WCA, and it was the early stages of PIP and the performance challenges around PIP at that early stage.

**Chair:** I am letting you get away with acronyms, but forgive me for interrupting—that's the work capability assessment, and you mentioned IB, which is incapacity benefit, to be clear.

**Philip Chalmers:** Yes, and PIP is the personal independence payment.

Q430 **Anne Marie Morris:** I am curious as to why, with the RAG rating of red, the Government still carried on and you carried on. You ultimately exited the ESA contract, and I was surprised that you did not do that earlier. What is it about how the Government manages the contract that means that when it sees something that is not working and you get a red rating, you pay the penalties but you carry on none the less, which means that there is actually no improvement in the service delivery—you have just paid a chunk of money?

**Philip Chalmers:** Work capability assessments were a difficult service. I remember my colleagues using the phrase that, "It wasn't working for the claimants, it wasn't working for the DWP and it wasn't working for us," but we could not just walk away from it. We do not walk away from anything. We had to ensure that there was a smooth and orderly handover of that business to another supplier, which took a period of time and of negotiation. I think this Committee praised the fact that it was an orderly handover and that the service continued. We would never just draw down the drawbridge and stop delivery—that would be unacceptable.

Q431 **Anne Marie Morris:** Are you not surprised that it was you who drew down the drawbridge, rather than the Government?

**Philip Chalmers:** I think it was mutual at the time. It was agreed that we needed a change in that service.

Q432 **Anne Marie Morris:** Why did you think that you could not make that change? What was it that made you realise that you could not carry on and that it needed to go to another contractor?

**Philip Chalmers:** It had got to a place where publicly it was a very difficult service to deliver. There was great reputational damage to our name around that. That caused difficulty in, for instance, recruiting people to be able to deliver the service. At that time, we were struggling with a backlog building up for those very reasons.

Q433 **Chair:** So it was the reputational damage that made you walk away.

**Philip Chalmers:** I think it was also the fact that we wanted the service delivered as best as it can be. One of the things that you need to understand is that a third of the people in Atos have TUPE-ed in from public sector organisations. There is a really strong public sector ethos within the company, and that flows through. Nobody wants to see public



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service delivery going badly. In that instance, it was not going as well as it needed to.

- Q434 **Anne Marie Morris:** In terms of the Government's position on all this, you said earlier that they did not like the get out of jail clause, but you wanted to get out of jail because the contract was not working. How did they react to your request to get out of jail, and did they penalise you very heavily for leaving them with the problem of finding somebody else?

**Philip Chalmers:** I thought it was a really constructive process. I was not involved in it, but I am aware of it. It was difficult, but it was constructive and it got to a conclusion as fast as it could. Yes, we were heavily penalised.

- Q435 **Anne Marie Morris:** In terms of the ability of the Government to then find somebody to replace you, presumably that was quite difficult, given the mess it was then in.

**Philip Chalmers:** I don't know how difficult they found it. Maximus came forward. I am not privy to the conversations that went on between the Department and Maximus and how that played out. There was not a big gap.

- Q436 **Anne Marie Morris:** Let me ask you something on a slightly different tack before I hand over to my colleague. Corporate governance is clearly a big issue. I was slightly surprised to find that your pension scheme is where it is and your shareholders are still getting dividends. The shareholders are getting dividends, but your pension fund is increasingly going into deficit. From a corporate governance position, you know that you need to be looking at this not only in terms of what is in the best interests of shareholders, but also in terms of the employees and the community and all sorts of other public aspects that you need to look at. Your pensioners are effectively having a smaller and smaller pot while the shareholders are still getting their dividend. That does not sound like good practice to me.

**Philip Chalmers:** Like a lot of companies that have grown by merger and acquisition, we have brought in a number of pension schemes. Some of the ones that we brought in were running deficits, and we have to fix that. We have got a long-standing funding plan for that that has been approved by the shareholders and the board. We have run that past the Pensions Regulator, as well. The group at the global level has stood behind that. We do not regard the funding issue as an issue at all.

**Anne Marie Morris:** We will touch on corporate governance more generally later.

- Q437 **Luke Graham:** To build on some of my colleague's comments, one of your comments that I picked up on straight away, Mr Chalmers, was that you take a lot of pain in your Government contracts. Why does Atos want Government contracts?

**Philip Chalmers:** We operate in multiple markets, and one of the things is to not have all your eggs in one basket. Within the private sector, we





work in manufacturing, retail, transport, utilities, media and telecoms. Even within my bit of the public sector in health, I do not regard that as a single market. We have central Government, health, defence, police and education. As a business in the UK, we want to have a presence in all those markets because at various times some of them will be growing and some will be declining.

**Q438 Luke Graham:** It is not about a desire or a big love for this certain type of business; it is more about spreading risk.

**Philip Chalmers:** There are two elements to it. You do want to spread risk, I think that is absolutely right, but as I said a minute ago, we have a bit of a heritage in the public sector.

**Q439 Luke Graham:** You say heritage, I say legacy, and we can go into some of your performance in terms of that legacy. What I am trying to understand is—we have looked at some of your figures. You get 13% of your revenue in the UK and Ireland. In your area of the public sector, what is the revenue figure and the operating profit figure that comes just from the public sector side?

**Philip Chalmers:** There is a slight confusion, if you will just let me explain. The bit that I run is the technology services—digital transformation. The bits that you were talking about there—about PIP and WCA—that outsourcing sits separately, even though there is public sector in it. Between the two of them, it's just over half of our business in the UK.

**Q440 Luke Graham:** So half of the 13% is what we're saying—so 6.5%?

**Philip Chalmers:** The £1.5 billion is our revenue in the UK and just over half of that would be from the public sector.

**Chair:** So, technically paid for by British taxpayers?

**Q441 Luke Graham:** Got it. Fine. And of that, what is the kind of operating margin that you are at on that?

**Philip Chalmers:** We don't split it out for those markets, but if you look at our annual reports you will see that our operating margin is about 10% or 10.5%.

**Q442 Luke Graham:** You talked previously about the heritage—and obviously the involvement since 1998. But I think we have seen, and I in previous hearings as well, some of the issues. As a constituency MP, I have come across some of the historical issues. There is also the NAO Report about some of the issues that Atos has and certainly was having, especially on PIP and ESA, when you look at the delay on delivering reports, the backlog that was built up and the backlog for assessments.

So why is it that the DWP turned to you? I mean, other than being kind of the only one standing, why did the DWP go for Atos? You say you have heritage—I say it's a pretty poor legacy—but what was strength, other than being there and having an existing relationship, that made the DWP go for you, in your opinion?



**Philip Chalmers:** For which contract?

**Luke Graham:** For ESA and PIP.

**Philip Chalmers:** For ESA, it was a competitive tender that built on the fact that we did 10 years of delivering its predecessor. So I think they had strong confidence there. On PIP—I mean, the description you give is not current today. We have spent the last two and a half to three years working really hard, frankly, with the Department and with the Cabinet Office fixing that.

So, if you look at PIP performance today, you will be looking at 70,000 assessments carried out per month, with no notable backlog—94.5% customer satisfaction from the claimants.

Q443 **Luke Graham:** We can drill into PIP then, because that is the example you used. When you are looking at the subsequent reports that have come here, I wouldn't say it was a strong record. But I'll come back to it, because I'm not really understanding why DWP went for Atos. That is what I am saying. Also, with the subsequent reviews—and you had the problem with ESA—you basically got out of that contract and it went over to Maximus.

If you were trying to sell Atos, to say, "What's our strength?", you have technological strength and that's clearly what your company stands for. You had your previous experience and obviously it's a mixed record, certainly over the last decade. What would you say, appearing here today, is your strength? Why is Atos good and why should it continue to have contracts with the DWP?

**Philip Chalmers:** In this particular case that you are highlighting, I think the answer is that even when that went into difficulties, we stood behind it. We invested hugely in it; we are still investing hugely in it. And we've got to a point of delivery that the customer is happy with. We do not fold when things go badly.

Q444 **Luke Graham:** You did on ESA.

**Philip Chalmers:** We jump in and we fix things. So, we fixed PIP.

Q445 **Luke Graham:** Okay. We will come back to PIP, because I would be interested to know the numbers if you think PIP has been fixed. But for ESA specifically then, you say you don't jump ship, but obviously you did pass that contract on. You got to a point where Atos took 29 weeks to deliver reports and over 40% of assessments did not meet required standards.

To start at the beginning, before we hear how you got to that point, what due diligence did you undertake when taking up that ESA contract, to understand what the Department needed and how you could fulfil it?

**Philip Chalmers:** Honestly, you are talking about a contract that was let in 2008 and I have no memory going back that far.

Q446 **Luke Graham:** Okay, fine, bring me more up to date—some of this



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information has come from 2016. It was run for a number of years. So bring me more up to speed. When you were inheriting some of the legacy issues, what do you think went wrong? Where do you think Atos didn't have it quite right for ESA?

**Philip Chalmers:** I didn't have ESA in 2016.

Q447 **Luke Graham:** Sorry—you came out of the ESA contract. What I am asking you for is—you weren't around when the original contract was signed, but I'm sure you were aware of the issues why you had so many performance problems with the ESA contract. So I'm asking you why you think Atos wasn't able to perform and continue with that contract?

**Philip Chalmers:** I have a view—I am not entirely sure how widely it will be shared, but I will tell you what I think went wrong with ESA. There was a change in the assessment of incapacity benefit. If I simplify, the assessment used to ask, "What is wrong with you?", and then people would list all the things that were wrong. We carried out those assessments for 10 years. There was a difference with work capability assessments that said, "I know there is something wrong with you, but what are you capable of doing?" There was a very fundamental shift. When we started rolling it out for new claimants, it went pretty smoothly. The volumes were relatively small, but there wasn't any uproar, as it were.

When we started reassessing—a part of the contract was to go back and reassess the 2 million people who were on incapacity benefit—people were challenged by the fact that they had not expected, particularly if they had been on incapacity benefit for some time, people to suggest that they should be capable of some work, and I think there was a mass rejection of it from people that were going through the process. If you had been on incapacity for 10 years and you had built an entire lifestyle around picking up your grandkids or whatever, and then somebody comes along and says, "You're fit for work", that is a difficult thing to take on board, so I think there was a big reaction against it at the time.

Q448 **Chair:** So you are saying the clients were the problem.

**Philip Chalmers:** No, I am saying we did not manage it properly. We had not understood that. We had had 10 years of delivering a different assessment.

Q449 **Chair:** Just to be clear, are you saying Atos is taking responsibility?

**Philip Chalmers:** I think there is a responsibility across the board.

Q450 **Luke Graham:** Again, I think you will say you cannot answer this, but to go back to that due diligence piece at the beginning about having a change in ESA and the work assessments related to it, it sounds like Atos did not undertake the due diligence to go through and say, "This is what we now need to deliver. It is a functional assessment. There will be additional problems. The questionnaire will be x questions longer and this is why we have a backlog of 29 weeks and the assessment did not meet the required standards."



**Philip Chalmers:** I can't remember. Sorry.

Q451 **Luke Graham:** Okay, that's fine. To come back to PIP, DWP contracted Atos to assess claimant needs for PIP. Again, on the work on the backlog assessments and the work volumes, you say you have fixed the problem now. In the same way that you have spoken to ESA about how you think the problem came about, how do you think the problem came about for PIP?

**Philip Chalmers:** I think the main problem was that there was an assumption at the start, which was given to us, that the length of the assessment would be 60 minutes. It takes two hours, and that pretty much from the start blew our model away. We did not have enough people—

Q452 **Chair:** Did you not think to try it and do assessments or tests yourself? You trusted the Government information.

**Philip Chalmers:** That was the assumption that was given to us and we based it on that.

Q453 **Chair:** Did you test the Government on how they had made that assumption and what they had built it on?

**Philip Chalmers:** We may have at the time. We may have asked them. There might have been some carried out by the DWP.

Q454 **Luke Graham:** You have your public sector pledge: improved transparency, better collaboration and improved focus on the system experience. In relation to ESA do you feel you broke that pledge?

**Philip Chalmers:** We created our public services pledge in the last couple of years. I still think we tried to do our best in ESA. You might say that we did not get up to the mark, but we tried to do our best. We deeply regret any difficulty that people experienced.

Q455 **Luke Graham:** We are looking at some of the measures that were used by DWP and yourselves and how some of these assessments were performed on the ESA and the PIP side. Do you think they took into account the people side of the equation? Some of the measures that we have seen seem to indicate it was very much about the time taken. It is a tick-box exercise, a compliance exercise rather than a values-based exercise. How much thought did Atos put into considering the customer and the people, given how vulnerable the people are that you deal with?

**Philip Chalmers:** That is at the centre of everything we do. To give you an example, 75% of the healthcare professionals we use are nurses, most of whom come from the NHS. The average length of tenure is 14 years, so they are experienced. Caring for people is in their DNA. The functional assessment needs to be the same everywhere, so it needs to be carried out in a specific way. That functional assessment was designed by DWP in order that it would give them the evidence and the justification to make a decision; but when you are asking about how we put people at the heart of that—that is all our people think about.



**Q456 Luke Graham:** How do you check to make sure that that really is the case? I will be honest: from a constituency point of view I just don't find that to be true. The amount of time I have seen assessment reports come back and the assessors have not done the individual checks—someone says "They have fine hearing" and actually the person was wearing a hearing aid. How do you actually quality check that people really are at the heart? Going down to the individual assessor area, how do you performance manage that person to make sure people are really at the heart of everything they do?

**Philip Chalmers:** One of the improvements that we have made—there is a quality measure, for instance, which we have not met, which is a really difficult quality measure. You need to be 97% and we are currently 95%, so we are getting there; but I think in previous Committees it has been pointed out that it used to be a much bigger gap. We are determined to get to that point. One of the things that we have done is we have brought in more clinical leads—so we used to have 1:40 clinical leads and we now have 1:12. We have invested heavily. These are people who do one-to-one training with our healthcare professionals, essentially around how they deal with people—how they make sure that that assessment is as gentle and as kind as possible, because there is a recognition that these are vulnerable people and this is a potentially stressful situation. We have put all of that in. We have tried to improve our communications at the start, so that people know exactly what it is they are going through. We try to encourage people to bring family members or carers with them, as part of the process; and at every step of the way we try and engage and get feedback. So if you say that you have a comment from a constituent we desperately want to know about it; because if there is something that we can fix, we want to be able to fix it.

**Q457 Luke Graham:** Again, I think the number of cases that we see that come through to our offices—we clearly have a problem with the individual assessors, and certainly the varying standards. You speak about reaching for a standard, and you have been doing it for quite a few years now, this assessment process. There just seems to be a lack of urgency to it. You know what happens when people fail their assessment: they lose funding support. They in some cases have their livelihood threatened. They have living condition issues. All these things you understand: it is not like being a retailer, and it is customer service and "We really aspire to be x% and we haven't quite met it." It means "If I don't get this assessment right this person loses money." My question is: when are you going to hit the 97%?

**Philip Chalmers:** The straight answer to your question is we hope to hit that this year. If we can get the momentum that we had in 2017 through to 2018, when we have improved, then we should be able to do that by the end of this year; but can I just take a little minute to explain what that quality measure means? It does not mean that the evidence within that report is not sufficient for DWP to make a decision. There are 12 activities that are listed on it, and each of them has a number of descriptors. A report can be deemed as not meeting the quality threshold if one of those has not got the evidence that quite matches up to it. We do an audit and



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we then take that and make sure that it gets fixed. Essentially, between ourselves and DWP every single report will be fixed. Just so you understand the driver—because we are a commercial organisation—if we miss 3% we don't get paid for 3% across the board. If we miss 5% we don't get paid for 5% across the board. Yet all of those will come back to us to be reworked, which we will fix without being paid for, and we have to do it within two days.

**Chair:** We do not need to get into the weeds of how PIP is administered; so if we can move on—

**Philip Chalmers:** But there is very much a driver for us: you were saying "Where is the urgency?" There is a huge urgency for us to do it.

Q458 **Luke Graham:** For the benefit of the Committee, and everyone watching as well, just how many years have you been undertaking PIP assessments, again?

**Philip Chalmers:** The contract was let in 2012 and we started in 2013.

Q459 **Luke Graham:** Five years. Do you get any feedback on how many recommendations from your healthcare professionals are overturned at tribunal—and what do you do with the feedback?

**Philip Chalmers:** The appeals process is very much on the DWP side. We do get high-level numbers about it. The evidence that we get from the DWP is that the majority of cases that are successful on appeal are because of additional evidence that comes through.

Q460 **Luke Graham:** And it is often medical evidence. I am conscious of the time. What is the percentage at the moment?

**Philip Chalmers:** I think it is 80%.

Q461 **Luke Graham:** So 80% are overturned?

**Philip Chalmers:** Yes, but it is good that there is a process in place. We ask people to bring as much evidence as they can. Once they come along, we try to send out for more evidence to GPs and specialists.

**Chair:** We are all quite familiar with the process.

**Philip Chalmers:** If additional evidence comes in, that is a good thing.

Q462 **Luke Graham:** Absolutely, but 80% is a shockingly high number for something that has been going on for five years. I would expect that in the first 18 months, not five years later. Again, that puts stress on people.

I know the Chair is pushing us on time, so I will move on to the last couple of questions. When you had the crossover for ESA—obviously, you knew who was going to carry out that contract; it was going to be passed over to Maximus—what consideration was there of your customers in terms of extra delays or handover timing costs? What preparation was made to make sure that the customer experience was as seamless as



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possible in that handover?

**Philip Chalmers:** We put additional resources into that contract—again, at our own cost—to make sure that the handover was as smooth as possible. If it is important to you, I can see whether I can get a detailed exit plan for you. Would that help?

Q463 **Luke Graham:** Yes, I would be grateful for that; it would be good to get the details. In your experience to date, has Atos ever received a green RAG rating from the Government, or from the DWP specifically, while underperforming on its targets?

**Philip Chalmers:** We do not get that level of detail. The only information I have about RAG status is that, having put in place our performance improvement plan and executed it on PIP, which, as you said, was the reason we had gone to red, we were green from August 2015, and we are green to date—from then to now.

Q464 **Chair:** Just to get an answer to Mr Graham's question, did you ever go green while you had underperformance on major parts of contracts or whole contracts?

**Philip Chalmers:** Not to my knowledge.

Q465 **Chair:** So all the while you have been green, you have never had any underperformance on any of your contracts?

**Philip Chalmers:** I suppose my first question is, how do you define underperformance?

Q466 **Chair:** Well, contractually. We have been hearing a lot about the details of contracts.

**Philip Chalmers:** On our KPIs?

Q467 **Luke Graham:** On your KPIs—exactly. We know we are not up to 97% yet on the quality side—we are at 95%. While any of those KPIs have been missing their targets, have you received a green RAG rating?

**Philip Chalmers:** If you mean do we have to be 100% green on every KPI on every contract—if one of them goes amber, do you think the RAG status of the Cabinet Office should go amber?

Q468 **Chair:** We are just asking you whether it has ever happened.

**Philip Chalmers:** I would say that it is almost certain that some of our KPIs were amber, given the vast number that we have, during that period. I don't know, but I can assume that to be true.

Q469 **Luke Graham:** You can try to find out—fine. My last question is, does Atos want to continue in this market?

**Philip Chalmers:** Yes.

Q470 **Luke Graham:** So when we go to the contract renewal, there will definitely be bids in?



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**Philip Chalmers:** We will qualify it like anything else. I don't know what shape it is going to come out, but depending on the shape, we will absolutely look at it.

**Chair:** We are going to move on to Mr Haley and Sodexo. Thank you for your patience.

Q471 **Lee Rowley:** In the note you submitted to us, you state that there are 156 contracts that you operate on behalf of the Government. What is the value of those contracts?

**Sean Haley:** It is 52% of our UK and Ireland revenue, which is £1.6 billion.

Q472 **Lee Rowley:** So about £800 million?

**Sean Haley:** About £800 million, yes.

Q473 **Lee Rowley:** Has there been a growth or a reduction in either value or numerical terms over the past few years?

**Sean Haley:** It is reducing.

Q474 **Lee Rowley:** By a significant amount?

**Sean Haley:** Yes. We took a significant hit during the Hestia defence programme. We only retained one of those contracts, and we lost £100 million in revenue as part of that programme.

Q475 **Lee Rowley:** How would you describe the performance of the 156 contracts you have at the moment?

**Sean Haley:** We have no red-rated contracts, but of course, across a portfolio like that, we have some challenges. Specifically, there are challenges in our prison portfolio—Northumberland prison is a very challenging contract for us—and the CRCs. Of course, all those contracts will have their individual performance management systems.

Q476 **Lee Rowley:** So when you say you have no red rating, is that a red rating that is given to you by Government, or an internal red rating that you were determining as a company?

**Sean Haley:** By Government; I was quoting Government. We obviously have our internal governance processes, but I was quoting the fact that—

Q477 **Lee Rowley:** And from your internal processes, what proportion of these contracts would you say are not operating at the level you would want them to be?

**Sean Haley:** I think the two areas I have mentioned are the ones that I would draw out as being challenging. I would advise looking at it from a financial perspective and a service-delivery perspective. I think we can have financial challenges on contracts, but they can be delivering, so we need to look at it in the round. I would suggest that those two are the areas about which I would be most concerned.





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Q478 **Lee Rowley:** Two areas—how many contracts?

**Sean Haley:** We have six CRCs and we have five prisons.

Q479 **Lee Rowley:** Okay, so 11 out of 156 are not at the place where you want them to be, or thereabouts?

**Sean Haley:** Not all of those. Not all in that portfolio would be concerning. Within the prisons, I would call out the one I did—Northumberland.

Q480 **Lee Rowley:** Of the contracts that you have, how many are losing money?

**Sean Haley:** We have one loss-making contract in your portfolio.

Q481 **Lee Rowley:** Of the 156?

**Sean Haley:** Yes.

Q482 **Lee Rowley:** Will you name that contract?

**Sean Haley:** I will, yes. Hereford hospital.

Q483 **Lee Rowley:** So Northumberland is still profitable, as it currently stands?

**Sean Haley:** It is very challenging financially, and it is under constant review, but yes.

Q484 **Lee Rowley:** Why is Hereford losing money?

**Sean Haley:** I think it was a very early PFI and some of the assumptions made at the time were incorrect. The maintenance of that hospital is quite onerous. It was also a contract that was acquired by Sodexo, as part of a requisition five or six years ago. My assumption would be that errors were made in the bidding, but we have to stand by that.

Q485 **Lee Rowley:** Would you ever bid on a contract knowing that you will lose money?

**Sean Haley:** No.

Q486 **Lee Rowley:** On page 4 of your written evidence, you state: "The focus should be on outcomes".

**Chair:** Give us a paragraph number.

Q487 **Lee Rowley:** Paragraph 18 e) on page 4. You have already talked about one of your contracts, Northumberland, which I want to look at in more detail. If you are of the view that the focus should be on outcomes, why have you got to a place where the performance of HMP Northumberland is so incredibly poor?

**Sean Haley:** There are challenges at Northumberland. I am not so sure I would describe it as majorly poor. There is some real improvement there.

Q488 **Lee Rowley:** Okay, we can use the HMP inspectorate's term—"grim picture". I'm happy to use that term instead of mine.



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**Sean Haley:** Okay. Since that, we have made improvements. We have put more staff into there. There are 50 additional staff officers in there. That is our acknowledgement that during the bid we under-resourced and it needs more resource. That is in there.

We have invested in the facility. The facility, unfortunately, was in a poorer condition than we anticipated. It is an example of the issue that Mr Soames was talking about in data, in that when we inherited the building the fire suppression system was found to be non-compliant and had an enforcement notice against it. We were not aware of that, so had to invest in it.

Q489 **Lee Rowley:** Presumably you did your due diligence on that? You would have asked for the certificates or the back information, so you should have known that.

**Sean Haley:** It is a good point, and it is a point of contention between us and the MOJ.

Q490 **Lee Rowley:** Still? Four years after you took it over it can't still be contentious, can it?

**Sean Haley:** Sorry—it was a contentious point at the beginning when we were discussing it.

Q491 **Lee Rowley:** How did the contention get resolved? Who agreed?

**Sean Haley:** We invested.

Q492 **Lee Rowley:** You invested? So you therefore accepted responsibility for not doing the due diligence?

**Sean Haley:** Yes, we did.

Q493 **Lee Rowley:** Okay, fine. Let's go to the "Panorama" investigation last year, which raised a number of things. You said you were undertaking an investigation on those aspects. I am just looking for yes or no answers to these. Do you accept that there was widespread drug use in HMP Northumberland at the time?

**Sean Haley:** Yes.

Q494 **Lee Rowley:** Lack of control?

**Sean Haley:** It is very difficult to give yes or no answers.

Q495 **Lee Rowley:** You're paid the big bucks, even though we do not know what that is, so you can give me a yes or no answer.

**Sean Haley:** Yes.

Q496 **Lee Rowley:** Door alarms that didn't go off in one block? That must be a point of fact.

**Sean Haley:** Yes.

Q497 **Lee Rowley:** A hole in an internal security fence?



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**Sean Haley:** Yes.

Q498 **Lee Rowley:** Balaclavas found on wings?

**Sean Haley:** Yes.

Q499 **Lee Rowley:** Blackout clothing found on wings?

**Sean Haley:** Yes.

Q500 **Lee Rowley:** Wire cutting tools found on wings?

**Sean Haley:** Some of these I cannot remember from the programme. I won't comment on that one.

Q501 **Lee Rowley:** Employability skills sessions where the inmates coloured in pictures of Peppa Pig?

**Sean Haley:** Yes.

Q502 **Lee Rowley:** You accept most of those, and I am grateful for your acknowledgement. What did you immediately do to resolve some of those issues?

**Sean Haley:** The team undertook an immediate review with our client, the MOJ, to make sure that we actually factually understood the situation and to ensure that mitigation plans were put in place.

Q503 **Lee Rowley:** Okay. Mitigation plans were put in place, yet an inspector went in three months later and still found widespread problems. What happened in those three months, and why did you comprehensively fail to resolve any of those problems?

**Sean Haley:** I don't think that is the case. Although you are quite right, certain progress had been made, and when the inspector went back he said more than just that, but he confirmed that further work was required. As I said, we made improvements, including investing in the facility and increasing the resources, because that was one of the big issues that was accepted at the time. A lot of these issues are across the whole estate, not just Northumberland, and "Panorama" was very good at identifying those issues. Some of the concerns were around working hours for prisoners, which doubled in the period of our improvement plan.

Q504 **Lee Rowley:** I am slightly confused. If you are saying that work was done between the "Panorama" investigation, which you must have known about before February 2017—even if it was just a matter of weeks, because they would have asked you questions on that—and the inspection between 19 July and 4 August, which was unexpected, and that mitigation plans were put in place and progress was made, why did the inspector of prisons say in their report in September that some "basics needed to be addressed as a matter of urgency"? If you had taken the "Panorama" issue seriously, the inspector of prisons would not have said that there were still basics to be addressed four months later.

**Sean Haley:** I think to answer that fully I will have to come back to you with exactly what was undertaken in that three months. We took it very



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seriously. We believe absolutely in our responsibility to keep our residents safe in our prisons. There will have been investment and work undertaken in that three-month period that I would like to share with you.

**Q505 Lee Rowley:** Okay. We will be grateful to receive that. I just want to move on from "Panorama" and turn to some specific points in the inspection report. On page 5 of that report, the inspector said, "the visitor is left with a sense that the unification"—of the two prisons that came together to create HMP Northumberland—"is still a work in progress". Given that that was in August 2017, and you had managed that prison since 1 December 2013, why do you think that unification had not been completed?

**Sean Haley:** I think it was a very difficult task. That is not an excuse, but it has taken a considerable amount of time. Northumberland was only the second prison to be outsourced—not within a PFI arrangement—from the public to the private sector. If we are very honest, the team that transferred from the prisons were not happy to do so. It has taken a lot of time to settle and reshape that team, and to get that team to the right number, as I mentioned earlier, by increasing the team by 50.

It has taken some time to ensure that we have the right people with the right leadership and mindsets to take the prison forward. Given that we were not only transferring Northumberland but, as you quite rightly say, merging other prisons to bring a mixed team together, that has proven very challenging.

**Q506 Lee Rowley:** Why did violence more than double between 2015 and 2017?

**Sean Haley:** I think drug use is a reason, as you referred to. I think, again—I cannot give you the stats—we have to look at this in the context of the whole estate, because violence increased across the estate. Again, I would have to come back to you to clarify or benchmark that better. The answer to the question is that we clearly saw increased drug use, which led to violence.

**Q507 Lee Rowley:** On the point you make about violence increasing across the whole estate, the challenge I have for you on that is that another inspection at exactly the same time in one of Mr Soames's prisons, HMP Thameside, says that it had avoided those huge rises in violence seen elsewhere? Why can they do it but you guys can't?

**Sean Haley:** I think we can, because I think we could look at—

**Lee Rowley:** But you haven't.

**Sean Haley:** We could look at examples from the rest of our estate, which would show that we do understand how to manage that, and we have got the techniques, but I do think we found ourselves in a very challenging situation in Northumberland with several things that I have already mentioned that will have contributed to that situation. Just to say, our absolute focus is on reducing violence, not only for the residents but indeed for our own people. One of my biggest concerns is that I have



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many people working within potentially unsafe environments. That is a real concern to me.

**Q508 Lee Rowley:** Do you agree that some of the issues identified by the prison ombudsman, particularly with regard to deaths in custody, had not been addressed? The inspector described that as “difficult to comprehend.” Why was it not addressed?

**Sean Haley:** I don’t know the specifics that they are referencing. I believe we have a very robust and rigorous process for managing deaths in custody. I would have to understand the specifics.

**Q509 Lee Rowley:** Do you think the contract that was let by the Government was sufficiently robust in these areas? If you haven't been able over four years to get a grip on those things, is it your responsibility or the Government’s responsibility?

**Sean Haley:** I think it is slightly unfair to say we haven't got a grip on it over four years. I think we would be able to demonstrate good progress, and the recent independent audit we have done in the last month demonstrated and confirmed that good progress was being made, including the things I referenced earlier. My understanding is that the framework of the contract there holds us accountable for delivering the service that the residents and our client, the MOJ, expect.

**Q510 Lee Rowley:** If the service is described as “a grim picture”, do you think the contract is sufficiently holding you to account to recognise the problems in this prison?

**Sean Haley:** I absolutely think that if it continues to be a grim picture over a period of time, you are right to challenge that.

**Q511 Lee Rowley:** How long should I wait until we accept that this contract is dysfunctional, given that you have had two inspections now saying that there are problems, one “Panorama” programme and numerous other indicators?

**Sean Haley:** I don’t think colleagues at the MOJ would agree with that description of it as being dysfunctional. I think they would agree that progress has been made and that has been evidenced. Again, I refer to the recent independent audit, which supports that.

**Q512 Lee Rowley:** Nick Leader, who has taken over HMP Northumberland, says on its website that he has made a personal commitment to introduce a safety culture at the prison. Does that mean there wasn’t a safety culture before he came on board last year?

**Sean Haley:** No, it doesn’t. There will have been a safety culture there. The right processes and actions will have been undertaken, but clearly we needed to improve. Nick, who is a very, very experienced governor who has spent much time in the public sector and is now in the private sector, is well placed to lead that. It is good to see that Nick is referencing that as one of his main priorities.

**Q513 Lee Rowley:** Given where we are, and we all accept that there is a



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problem, do you think the contract was flawed in its design, its operation or its resourcing?

**Sean Haley:** In its design, to my knowledge, it is fit for purpose and will hold us to account for the services that are to be delivered. I think in operation, as I have already said, it has been very challenging and very difficult. It was only the second one that was done and therefore we have had to deal with that. In resourcing, as I have already said, I think there were mistakes made and they have been to some degree rectified both by ourselves and by the MOJ. Of the additional 50 resources in there, some are part of the investment that the MOJ is undertaking across the estate, and some are funded directly by ourselves.

Q514 **Lee Rowley:** So you reduced the overall employees at this prison by 200 and you put 50 back in and we are led to assume, therefore, that everything will be fine. That is still a significant reduction in the number of people.

**Sean Haley:** The MOJ and ourselves believe that with the plans we have in place, under the leadership you have referenced, with the progress that is being made and with the recent audit to support that, yes, we should be able to get that prison to where we would all want it to be.

Q515 **Lee Rowley:** The action plan on this prison had 71 recommendations, of which you agreed with 70. How many of them have been delivered?

**Sean Haley:** I would have to come back to you on that. I wouldn't want to mislead you. I don't have that detail.

**Chair:** Can you add that to the letter?

Q516 **Lee Rowley:** If the prison gets into this problem again, at what point should the MOJ terminate your contract?

**Sean Haley:** If we have been given a reasonable opportunity, given the circumstances I have discussed, to get the prison to the standard that is required in the contract and expected by us and the MOJ, and it is not fulfilling that, there needs to be a serious discussion with both parties.

Q517 **Lee Rowley:** How long do you need? We are coming up to five years now. If another inspection report goes in and another action plan has to be created, at what point should this Committee, charged with value for money assessment, say, "This contract is providing neither value for money nor outcome"?

**Sean Haley:** As I say, I think the prison is being managed and serviced better than we are portraying it here at the moment. That needs to be understood better. On your point, if there is a third inspectors' report and it does not provide confidence that sufficient progress has been made in the environment in which we are operating—both in Northumberland and the broader estate—there needs to be a serious discussion between us and the MOJ. I accept that.

Q518 **Lee Rowley:** And you would potentially recommend the termination of the contract at that stage, if you have clearly demonstrated three times



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that you cannot do it.

**Sean Haley:** Let me be clear. Based on our experience of managing prisons, we firmly believe that we can get that prison to where it needs to be, and we think we are well on the way to that. If it is proved that we cannot do it, there has to be a serious discussion. We all want the same outcome. We all want the best-run prison, given the challenges we all face.

Q519 **Lee Rowley:** I would very much value seeing the audit report you referenced, because we have not seen that and we have not had an opportunity to comment on it.

**Sean Haley:** I will share anything we have got with you.

**Chair:** Thank you very much. That is very helpful. We now want to move on to some more general points, picking up on some of the points you have made individually and some of the issues we have been examining—how contracts are managed, and how you work with the Government. If you agree with what someone else has said, you can always say you agree with them; you don't have to repeat it. Otherwise, we could be here all day, and we have all got other things to get on to. I will ask Sir Geoffrey Clifton-Brown to kick off.

Q520 **Sir Geoffrey Clifton-Brown:** I have three quick categories for the three of you. First, pension fund deficits. Mr Haley, can you tell us what your company's pension fund deficit is, and what action you are taking to remedy it?

**Sean Haley:** It's—I was nearly going to say commercially sensitive, because that is what I have been advised. It is £140 million, and we have got a funding programme to close that gap. The important thing about our pension deficit is that it has got a guarantee from our parent company, which gives us all assurance that we shouldn't be overly concerned about it. However, it has been re-evaluated this year—every three years it gets re-evaluated—and of course we will review that to see whether our current funding programme is adequate.

Q521 **Sir Geoffrey Clifton-Brown:** Is the information we have got—that you have agreed to pay £10 million for the next five years and £7.5 million for the following seven years—correct?

**Sean Haley:** Yes, I believe it is.

Q522 **Sir Geoffrey Clifton-Brown:** Has that been approved by the Pensions Regulator?

**Sean Haley:** Yes, I believe it has.

Q523 **Sir Geoffrey Clifton-Brown:** Can I ask you the same question, Mr Chalmers? What is your company's pension fund deficit, and what action are you taking to remedy it?

**Philip Chalmers:** I don't have the total for the numerous funds that we have. I do know that we have a long-term funding plan in place for them,



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that it is backed by the group, and that we are running it past the Pensions Regulator.

Q524 **Sir Geoffrey Clifton-Brown:** The information I have is that your pension fund deficit is €87 million for UK operations. Do you think that is correct?

**Philip Chalmers:** I didn't know the figures. If that's what you have—

Q525 **Sir Geoffrey Clifton-Brown:** Can you write to us with the figure, and what action you are taking to correct it?

**Philip Chalmers:** Certainly, yes.

Q526 **Chair:** You said it had approval, but that's not a parent company guarantee or anything. Just to be clear, it is approval by your board.

**Philip Chalmers:** The board stands behind it.

**Chair:** But that's as far as it goes.

Q527 **Sir Geoffrey Clifton-Brown:** Your company has agreed to pay a dividend of €1.7 per share, and yet you have got this pension fund deficit. Doesn't that sit relatively ill with your people in the pension fund?

**Philip Chalmers:** I don't think so, if you have got a funding plan for it. We acquire new businesses, and as part of that we may acquire pension funds that require closing a deficit. If we have got a plan to do that, that's okay.

Q528 **Sir Geoffrey Clifton-Brown:** One third of your staff are TUPE-ed in from the public sector. Is that affecting your pension fund?

**Philip Chalmers:** Not recently, no—I don't think so. The majority of those happened some time ago.

Q529 **Sir Geoffrey Clifton-Brown:** Mr Soames, what is your pension fund deficit, please?

**Rupert Soames:** At the risk of being Mr Goody Two-Shoes, we don't have one. We have an accounting surplus.

Q530 **Sir Geoffrey Clifton-Brown:** Well, my information is that your pension fund deficit is down from £46 million to £34 million, so it's not a great deficit, and that you have a long-term objective to eliminate it. Is that information out of date?

**Rupert Soames:** It depends on which basis you measure it on, but we have either a surplus or a tiny deficit—we're talking about £10 million on £1 billion. The other thing, which makes it far worse, is that we don't pay any dividends.

Q531 **Sir Geoffrey Clifton-Brown:** Thank you very much for that candid answer and for your performance in that respect. For my next question, I will start with you, Mr Chalmers. Can you tell us what your payment timescale is for your suppliers, particularly SMEs?





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**Philip Chalmers:** We are signed up to the prompt payment code; we will be publishing in July. The target across the board is 95% within 60 days. We are getting towards that. We're not there yet; I think we're in the high 80s. In terms of SMEs, they are not classed separately, so at the moment it is anything from immediately to 60 days. However, given the focus on SMEs, our CFO in the UK has commissioned a paper to look at moving towards 30 days for all SMEs and what the impact of that would be, so we expect to understand that within the next couple of quarters.

**Sir Geoffrey Clifton-Brown:** Mr Soames?

**Rupert Soames:** Our standard payment term is 30 days. With invoices, about 85% of them are paid within 30 days, 12% in 31 to 60 days, and 5% in 60 days or more. Our SMEs are paid on average in 28 days.

**Sir Geoffrey Clifton-Brown:** Very good; thank you. Mr Haley?

**Sean Haley:** We obviously work across the public and private sectors. Every supplier that works on a public sector contract solely is paid within 30 days. We have certain contract suppliers that work across both our private and public portfolios, and some of those will be paid in 60 days. We are going through the process of signing up to the prompt payment code. I think we are acting in the spirit of that at the moment, and we are working with Philip King to sign up in the next three months.

**Sir Geoffrey Clifton-Brown:** Very good. My third category of questions—

Q532 **Chair:** Sorry, can I just pick up on something? Do the Government ever check properly? We talk a lot about Government contractors, and we have had people talking about ethics. Have you ever had the Government come and check on a contract—that you are paying suppliers?

**Sean Haley:** Clearly, Philip King runs the prompt payment code and takes a real interest. We, for some time, have had to supply data to the Cabinet Office on our payment terms.

**Chair:** Mr Soames?

**Rupert Soames:** We supply the data, and they trust that it's right; they haven't audited it.

**Chair:** Well, it would be pretty fraudulent, I guess, if you put in wrong information.

Q533 **Sir Geoffrey Clifton-Brown:** I come now to my third category and I will very simply and straightforwardly start with you, Mr Soames. Would you have any objections if, as part of the procurement process by Government for all major contracts—I'm talking about the big ones—the actual contract would be published? That might not include certain details like the price and other sensitive commercial bits of it, but in general, would you be happy if most of it was published?

**Rupert Soames:** Completely, and in practice that kind of happens because one of the things that suppliers do, particularly if they have been



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unsuccessful, is put in an FOI request, asking for a copy of the contract. So that's kind of in place already.

**Sir Geoffrey Clifton-Brown:** Thank you. Mr Haley, do you have anything to add to that?

**Sean Haley:** I would agree.

**Sir Geoffrey Clifton-Brown:** And Mr Chalmers, do you have anything to add?

**Philip Chalmers:** I thought the majority of contracts were published on Contracts Finder anyway.

Q534 **Anne Marie Morris:** I will be quick. Social responsibility, which comes with corporate governance, is clearly key for a successful modern-day company. I am sure all three of you have corporate responsibility statements. A nod of the head will be fine. You must have, yes?

**Witnesses:** *indicated assent.*

Q535 **Anne Marie Morris:** Fine. Can you tell me, then, individually, what each of you is doing to work with your community to make it a better place? What are you doing to help with environmental issues? Do you—this is a separate but related issue—have a modern slavery statement, and do you put through an audit of all your suppliers? Maybe we can start with you, Mr Chalmers.

**Philip Chalmers:** I will take those one by one. In terms of the social value Act and how we work with the community, in the Ministry of Justice one of our partners is Tier 1, who refurbish old laptops and PCs, and they do that in prisons, so we make sure that all our old kit goes straight to them so that they use that. They then use the profits of that to work with a charity called Antz Junction, which is a through-the-gate charity that tries to mentor people. Atos also support Antz Junction financially and we supply mentors to them for individuals going through the process. That was the first one. The second—

Q536 **Anne Marie Morris:** The environment.

**Philip Chalmers:** A very good contract from DEFRA, for hosting, is just being let; it is in the Alcatel period at the moment. They were very strong on the environmental content of that. In our submission, we were rationalising them from five data centres to two and reducing their number of servers by 85%—there is a point to that, which is that the saving in electricity is equivalent to 1,300 homes. I have forgotten the other one.

Q537 **Anne Marie Morris:** Slavery.

**Philip Chalmers:** Yes, we fully comply on modern slavery, particularly within the supply chain. It is contractual in the supply chain and, in certain circumstances, it is a termination event if they fail to comply. We employ an independent assessor called EcoVadis and they do an audit on our supply chain for compliance. By 2019, more than 70% of our supply chain worldwide will have had that audit undertaken. They have already



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identified a number of suppliers in the supply chain—none in the UK—and action has been taken.

Q538 **Anne Marie Morris:** I am impressed; well done. Mr Soames?

**Rupert Soames:** As well as my P60, I have our slavery statement, which I am very happy to share with the Committee.

**Chair:** You are definitely getting a gold star.

**Rupert Soames:** I believe you raised on Monday the issue of whether you ever find anybody in your anti-slavery stuff, and we do quite big due diligence on our suppliers. We also go back automatically—we use a company called Kroll, who go and scour the internet on all our suppliers automatically to check on the anti-slavery thing. We work in an area where it is quite possible. We have not yet found any; I take your point that it is unusual not to have found anything, but we have a robust policy and we take it seriously.

On the social value Act, as a general point it is very rare that we have a contract that uses it. It is not for us to use it; it is for commissioners of public works. As a passing point, it seems to be quite underused. One of the things that the Government could be doing is using procurement as a way of promoting things, but we have more things than you can shake a stick at in terms of diversity, BAME inclusion and local community things.

Q539 **Anne Marie Morris:** Which is the social community project you are most proud of?

**Rupert Soames:** Could I write to the Committee? We do some fabulous stuff.

Q540 **Chair:** Okay, write to us. Mr Haley?

**Sean Haley:** On social values, you may have seen our public service pledge, which tries to record all the things that we want to do in our communities. Within communities, we will look to use local suppliers, employ locally and employ ex-offenders and ex-military, but we also have a foundation that we use to invest in communities, whether that is breakfast clubs for children, gardens, refurbishments and so on. We volunteer as well, so we encourage our people to volunteer and give their time within their communities, and there is a long list of great examples of that.

On modern slavery, we have a very clear policy and process. As Mr Soames said, I gather that on Monday there were not any examples for you, but we have had one overseas where we were importing uniforms into the UK from Bangladesh. Through those processes, we identified concerns and we have moved all that volume out of that country because we were not convinced that it was complying with the policy. That is just as an example.

Q541 **Anne Marie Morris:** Who do you use to do that work? How much is it hands-on, as opposed to just reviewing paperwork?



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**Sean Haley:** I think it is ourselves—I think it is internal—but I would have to confirm that to you. I think we have an external spot auditor that we use, but I would have to clarify that so as not to mislead you.

Q542 **Anne Marie Morris:** That is kind, thank you. The one thing you did not cover was the environment.

**Sean Haley:** Within our public service pledge is our environmental commitment. You will notice that we have recently started to make big steps with banning plastic and so on. There is much more to do there, but that is all part of our pledge and it is documented in there.

Q543 **Anne Marie Morris:** As a matter of interest, were any of you asked by the Government what your position was on slavery, corporate governance or social responsibility?

**Philip Chalmers:** Within the context of bidding?

**Anne Marie Morris:** Yes.

**Philip Chalmers:** It comes up in bids quite a lot, particularly environmental and sustainability issues. I am not sure I have seen the modern slavery piece.

Q544 **Anne Marie Morris:** Interesting. Mr Soames?

**Rupert Soames:** One of the requirements in the depths of the contract requirements will be that you comply with those. I think we would have to tick and box to say so.

**Anne Marie Morris:** But you didn't have to prove it—you just ticked a box.

**Rupert Soames:** Probably.

**Chair:** Modern slavery is the subject of an Act of Parliament.

**Sean Haley:** I think it is variable and it should be seen more. To be honest, Mr Soames and I have lobbied recently about the new commercial framework that will be put in place around FM. It appears much more in there now. We try to insist on that now, because I think it needs to be very visible.

Q545 **Chair:** I just want to go back to you, Mr Chalmers. You said earlier that you had losses in contracts and you took the hit, partly because you sometimes saw that as a "ticket to entry". Could you explain a bit more about that? Is it that you are low-balling to get your foot in the door?

**Philip Chalmers:** I don't know that those two were linked. I said that the strict commercial Ts and Cs were a ticket to entry, and separately I said that we have had contracts that made losses but we stood behind them and delivered them. But I did not link those two and I apologise if I did.

**Chair:** Perhaps it is the way I took the notes. You are saying that you have never low-balled a contract.



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**Philip Chalmers:** I absolutely will not low-ball a contract.

Q546 **Chair:** Mr Soames?

**Rupert Soames:** No.

Q547 **Chair:** Just for the record, Mr Haley?

**Sean Haley:** No.

Q548 **Chair:** You say that, but one of the challenges is dealing with SMEs down the line. Sir Geoffrey asked you about paying them. Mr Soames, in your evidence you talked about working positively with SMEs; it is easy for you to say that, but obviously they cannot get a look in to the main contracts, for reasons we do not need to go into because we all know the challenges.

As companies very often with a fixed-price contract, you must be trying to push down those suppliers' prices. How do you decide where you will draw the line about pushing them down so far that it becomes difficult for them to function, when they still need that business? That would be crossing the ethical line. How do you make that judgment? You have profit to get and you will cut into that profit if you pass too much down the line.

**Rupert Soames:** I think there is a difference between us and Government. Government are a monopoly buyer, whereas our SMEs have a choice of customers.

**Chair:** But you are pretty big and prestigious customers.

**Rupert Soames:** We are. I said in my report that a supply chain is a fragile and valuable thing to have. If you take our relationship with Catch22, which works with us in prisons, we would be severely disadvantaged if Catch22 did not see our business as being worthwhile.

**Chair:** Catch22 is a local charity based near Old Street that does work with teenagers.

**Rupert Soames:** It works with us in prisons. There is a big SME supply chain. For instance, on the COMPASS contract, which provides properties, there is a free market—it has hundreds of people it could rent property to, but it chooses to rent 6,500 properties to us because we treat them all right. I am sure we have some who feel that we are horrible and hard, but that is not something that comes across my desk. I have dinner parties with our SMEs at home.

Q549 **Layla Moran:** There were issues with the COMPASS contract, weren't there? Was that not one of the contracts that had issues?

**Rupert Soames:** The issue is that we have lost £100 million.

**Layla Moran:** Exactly.



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**Rupert Soames:** But that does not mean that we are not successfully looking after 17,000 asylum seekers to a very high standard, and renting 7,000 properties.

**Chair:** You are saying that you took the hit rather than pass it down to your suppliers.

**Rupert Soames:** Of course.

**Chair:** Mr Haley?

**Sean Haley:** Small and medium-sized enterprises are critical to us—they are part of our differentiation and our competitiveness. It is all about treating them fairly, and understanding them to allow you to do that. We have several tools to do that: we have a supplier inclusion programme, where we work with them to allow them to better understand us and to navigate within Sodexo, because we are a very large organisation, like Government, and we can be quite bureaucratic sometimes. We do mentoring of SMEs to ensure that they can get within our supply chain.

To be fair, because we use distributors to provide our services to our sites, those distributors obviously provide services to many other customers, too. We share our SMEs or we introduce them to those broader opportunities.

**Philip Chalmers:** I was going to say it is opposite to the way it was described; we actually try to shelter them from some of the worst Ts and Cs that are flowed down. We would rather take the hit than pass it on. We have a thing called SME Harbour, where we agree terms and conditions that will not get any worse for them. We introduce them to our entire client base. We introduce them to our scientific community throughout the world.

The most recent example I can think of is an SME called Darktrace, which does cyber-investigation across networks. We used them in Sellafield and we then took them into LLWR. We are now taking them into Northern Ireland Electricity. We have watched that company grow its head count as we have taken them around our client base.

Q550 **Chair:** It is interesting, because we have obviously been very concerned with Carillion's collapse that some of the biggest hits were to the supplier businesses that were in the dark about the problems in lines of credit. It is heartening to hear, and if anything you have said is not considered to be the case by those suppliers, I am sure they will be in touch with us.

Can I ask about financial resilience? It is one of the key things, of course, if something does happen to one of your contracts. I understand with prisons that there has to be contingency planning, but the financial resilience element is pretty key to the sustainability of contracts running important, crucial public services. Are you convinced that the Government are good enough at assessing your financial resilience, both at bid point and in your relationships, I suppose, with the Crown representative, and seeing when the problems arise? Are they savvy



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enough?

Also, you talked earlier about being open about your problems—and why wouldn't you be—but do you think there is anything that could be improved there? So, are they good enough at it, and what could be improved? We will start with Mr Soames and Mr Haley.

**Rupert Soames:** We are in a position, being a self-standing public company, where they can have perfect insight into our affairs and books, and we have 17 analysts following our company who keep up a constant commentary on us. I think the Government have a very good insight into what we do, and they are pretty sophisticated about that. They go and get their own financial advice.

It is much more difficult with smaller and medium-sized companies, which are being asked to take on huge liabilities and cannot give parent companies the guarantees and the like. Among the major suppliers, outwith something like Carillion, which as I say is the only case I know of a strategic supplier going bang, the evidence would show that they are pretty good.

Q551 **Chair:** So you think the Government's on the button, doing a good job?

**Rupert Soames:** Yes, I do, on financial resilience.

**Sean Haley:** I have maybe had a different experience from Mr Soames on this, but I would say that it is improving. I think there is more interest in our financial stability, and more information is requested. I think it is improving, and they do have a good understanding of the stability and resilience of Sodexo.

**Philip Chalmers:** We are not a Carillion. We are a robust company; we have no debt. I think the governance through the Cabinet Office and the Crown rep is stringent and robust.

Q552 **Chair:** That brings me on to the Crown representative generally. Mr Soames, you talked earlier about the relationship with the Crown representative, so you may have said what you need to say on this. You have been through a system, which has been introduced in recent years partly because the Committee, and others, have pushed for more commercial savviness in the heart of Government. How well is that working, and what could Government do to make it better and, crucially, better for the taxpayer? We will start with Mr Chalmers.

**Philip Chalmers:** I can only speak about our particular relationship. I think it has got a lot better. We have a very commercially experienced Crown rep. She is supported by a full-time strategic supplier manager. That second person is relatively new—I think it was 2017 when he came in. I have someone dedicated to the relationship with the Cabinet Office, and they meet or speak weekly. I meet the Crown rep and the strategic supplier monthly. We have a detailed agenda that we go through, across all our contracts and accounts.



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Quarterly, there are financial returns that look at profit included in that, as well as the revenue. There is the annual return and the annual review, which is more detailed and which I now expect is aiming to go broader than just public sector and to start looking at information in the wider domain. We mentioned earlier the one Government day where all our customers in the public sector were in one room, essentially talking about us. I think that is pretty robust.

Q553 **Chair:** Do you feel under pressure by it?

**Philip Chalmers:** I think it is right. Essentially, the direction of travel has been that we have been asked for more data, we are asked for it more regularly, and it is given more scrutiny. That has been the direction of travel over the last two or three years.

Q554 **Chair:** Has that affected the way your company therefore does business?  
You say more data.

**Philip Chalmers:** It is onerous at times. We spend more time doing it. But ultimately, it is taxpayers' money, it is the public purse and it is the right thing to do.

**Rupert Soames:** I think it works well. I think it is sophisticated, multi-layered and pretty well informed. They get a mass of information—probably too much—from us, but it is well designed and works well, with the one caveat that it does not work well because it cannot be delivered by Departments.

**Sean Haley:** I agree with that. Not to repeat, but I think it works well. There may be an issue about it being part time, but more recent experience has been very positive. On Mr Soames's point about connecting up to be one Government, we are seeing some of that. It is getting better connected. There is still more to do there, but it is much improved.

Q555 **Sir Geoffrey Clifton-Brown:** Given that all three of you have gone at some length during this hearing into the legacy issue of previous contracts that have left you with losses, are you all confident that the profit margins going forward in the sorts of public sector contracts you are in are sufficient to enable your business to be able to invest and innovate?

**Sean Haley:** In our current portfolio, yes. There has to be a question mark about the future. To be able to answer that question in the long term, a lot of the things Mr Soames listed, about improvements and reforms that are needed in procurement to allow us to work better together in the future, need to be understood.

**Philip Chalmers:** I think we are okay. Particularly with technology services and digital transformation contracts, you always have the ability to innovate. The pace of change is phenomenal at the moment, and as long as you are ahead of that, then yes, you have the ability to constantly modernise contracts and therefore ensure that you can deliver value to the customer and still make a profit.





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**Rupert Soames:** It pains me to say that we are shifting our bidding resources to other countries. We are reducing the amount that we spend on bidding in the UK market. It is still a lot—we still wish to be here and it is our own country—but I am genuinely worried about the seemingly unstoppable train of putting completely unreasonable risks on suppliers, and we have choice. Our choice is not to go into another sector of the market; our choice is to go and spend more in Australia and North America. I say this factually on our bidding costs: last year we invested £22 million on bidding in the UK market and this year it will be £14 million.

**Sir Geoffrey Clifton-Brown:** You are voting with your feet.

Q556 **Chair:** And is that primarily because of the issues Sir Geoffrey is raising about lack of innovation, or the complications with the contract that you were raising earlier?

**Rupert Soames:** It is just that there may be better opportunities elsewhere. I think the Government supply chain know secretly, in their hearts, that they have a problem. They see fewer companies turning up to bid. They see shortlists getting ever shorter. They are having to go and, bluntly, fiddle with technical scorings to ensure that enough people get into the line. Take the Scottish PECS bid—prisoner escorting—which was left with one bidder because the other two major bidders, of which we were one, just said, “We are not going to accept these terms and conditions,” and walked away. That is not how Government should be managing its supply chain.

**Sir Geoffrey Clifton-Brown:** That is very candid, thank you.

Q557 **Chair:** Mr Chalmers, you obviously have a big bit of business in IT, but also in other sectors. Do you see a difference in contracting and innovation opportunities in those sectors? I think you highlighted IT in your answer.

**Philip Chalmers:** There are two bits of the business, if you like. The outsourcing piece is limited to a very small number of contracts in the UK; the vast majority is in the technology service, and there is simply greater scope to innovate in that area.

Q558 **Chair:** Okay. A last couple of quick questions from me. One of the things we have repeatedly looked at on this Committee, and heard from many other witnesses, is the issue of the specification of the contract at the beginning and the management of the contract afterward. Both can have problems. Can you quickly give us your views on which bits are working best—is either working well?—and where you would want to see change, in order to deliver a better quality of service, not just hitting the KPIs, but really good quality of service on the ground?

**Sean Haley:** In both areas, there is a lot to do around commissioning and ensuring that we get that right, including considering piloting, to test things before they go into full deployment.

Q559 **Chair:** Sorry—do you think the public sector should pilot it or they should



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pilot with the contractor at an early stage?

**Sean Haley:** I think we should collaborate in the design stage and increasingly use technical experts to design, not commercial procurement experts. I think we need to get more technical expertise in to design the services, who have great experience of the services required. On piloting—yes, with the supply chain and the market. Your second point is also critical: contract management. It places some of the conversation we had earlier. I think the skills and capabilities to manage contracts through their life, which can often be very challenging and see changing demands, are also critical and need to improve.

**Rupert Soames:** As Debbie White from Interserve said, “If the data is wrong, the price is wrong.” I would say that the procurement regulations there are to provide a service and an outcome, not to be slavishly adhered to so that they produce the wrong advice. Civil servants and SROs should be asking for ministerial letters of direction when they are asked to go and roll things out in impossible timescales. Bidders should be told, “If you wish to be a strategic supplier, you will have to sign a self-denying ordinance that you will not challenge a procurement for two years after the contract has been let.” So there are two years where you would have to keep to the contract, and after that the Government should be free to adapt the terms and conditions, and performance of the contract through its life in a sensible way.

**Chair:** Very interesting.

**Philip Chalmers:** I have three things to say. First, there is a difficulty within procurement—I respect that in the public sector—based around fairness and ensuring you are always comparing apples with apples. One of the issues is that if you constantly try to make all of your bids look as though they are the same, you are left with a race down on price. That is one of the things to come up. One of the ways you can counter that—the reason I said we will not low bid is that we actually put in place in the bid team the three key roles that will deliver it, so when they are looking at how that bid goes in, they are also thinking, “Oh my God, can I actually deliver this? Do I have the right number of people?” I suggest that that would be helpful on the other side of the table as well, so that the people who are evaluating and scoring are looking at it and thinking, “If I am going to be here for the next two years delivering it from a departmental side, I want to ensure that I do not necessarily go for the lowest one.”

Q560 **Lee Rowley:** I have two questions. On your point a moment ago, Mr Soames, about how the amount you are spending in the UK is reducing for now, what proportion of the reduction would you say is down to just a clear-cut price issue, in that the Government are trying to squeeze you too hard, and what proportion is it process? Give us an indication.

**Rupert Soames:** I don’t have a problem with the Government seeking to get best value for the taxpayer; I have a problem with them doing that and associating it with completely unreasonable terms and conditions that put unmanageable risk on suppliers. The proposition for Government



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business at the moment is, "If it goes really well and everything goes right, you can make a 5% margin." I can buy that. What I cannot buy is the flipside: "If anything goes wrong, we will bankrupt your company."

**Lee Rowley:** So this is not a price conversation. It is a conversation about process and contracts.

**Rupert Soames:** It is about my principal bugbear, namely the transference of unmanageable risks to suppliers. That is in direct contravention of what is in the Treasury Green Book and the Cabinet Office guidance, which say that risk should sit with the party best able to manage it. How am I to manage 10-year change-of-law risk?

Q561 **Lee Rowley:** Does that align with your views as well, Mr Chalmers and Mr Haley?

**Philip Chalmers:** As I said earlier, the terms and conditions have become more onerous over the last few years.

Q562 **Lee Rowley:** But on a binary proposition of price versus Ts and Cs, it is Ts and Cs that are the problem at the moment.

**Philip Chalmers:** I am probably in a slightly different place in that we recognise it as a ticket to entry, so we have made a conscious decision that we understand the risk associated with Government contracts. I probably have slightly more of a challenge—admittedly it is in tech services and digital transformation space—that contracts can be bought at a very low price, and I would like to change that.

**Sean Haley:** I would agree with Mr Soames, but I do think the two are clearly linked. Ts and Cs drive the price. You have to price accordingly, so the risk transfer that Mr Soames talks about is critical; so I think you can't have this discussion without talking about price, and we are all aware in the market of the consequences from that challenge around price.

Q563 **Lee Rowley:** Is there anything Government has tried to outsource that, really, you think is too complex to outsource?

**Rupert Soames:** No; I think there is this thing between complex contracts. Running prisons is pretty complex. Making nuclear weapons is pretty complex. I don't think that complexity is the issue. I think there are some things that we shouldn't outsource, like decision making about people's lives, powers of arrest and the like. I think there are those areas which have to be—they could be administered by the private sector, but there would have to be decision making in the centre. I don't buy this argument: there are plenty of really complex projects that run really well.

Q564 **Lee Rowley:** Beyond policy, which is effectively what you described—

**Rupert Soames:** Policy and adjudication.

**Lee Rowley:** Policy and adjudication—theoretically, everything else could be outsourced.



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**Rupert Soames:** I think the evidence is that yes they can, because look what is provided by the private sector: we are shepherding in nuclear submarines on a daily basis in Faslane. That is complex, it is central to—we do some of the most secret things. We help run Fylingdales that keeps an eye out against intercontinental ballistic missiles coming in. I don't think there is a limit in complexity or secrecy or security. We guide the satellites that handle the Ministry of Defence's secure communication system. We do lots of really difficult things. It is not difficulty; it is how well the problem is specified as to what the job is.

Q565 **Lee Rowley:** So in principle you are saying that everything beyond policy and adjudication should be on the table. Is there anything where your companies would not have an appetite, currently, for bidding, all other things being equal—on a principle basis?

**Rupert Soames:** We have said that for the moment we are not happy doing actual needles in healthcare—I mean actually doing the thing—

**Chair:** Nothing with patients directly.

**Rupert Soames:** Administering to patients—actually knife cutting and injections.

**Philip Chalmers:** In theory there is nothing we would not look at. We would just qualify each individually. We do not have any objection to looking at any particular area.

**Sean Haley:** We have made a commitment around not getting involved with managing young offenders—the young in the Government's custody.

Q566 **Lee Rowley:** Because you didn't want to, or you didn't think the Government should be outsourcing it—or what way?

**Sean Haley:** We didn't want to.

Q567 **Chair:** My last two quick questions. One is about the quality threshold that the Government set. We have talked a bit about price and about terms and conditions. We have heard evidence that from 2010, with the price being driven down, there wasn't enough focus on the quality of the outcomes in a number of Government contracts. Do you agree with that position, and if not, why not? Perhaps we will start with Mr Haley and work across.

**Sean Haley:** I would agree that the balance of evaluation was not correct, and it was skewed towards price. I think the quality evaluation needs to be much more rigorous. I think we go back to maybe some of the things we talked about—the Public Services (Social Value) Act 2012 and so on—and how you actually start to measure the true value of the services, rather than just the cost of the services, because I thoroughly believe there is value beyond the cost of the service. So you must, through evaluation, have much more focus on true value and investment.

**Rupert Soames:** I think that the Committee needs to have some sympathy for Departments who are facing enormous pressure. Look at the



spending black hole, the deficit, in the MoD. Look at how much the MoJ and the Home Office have to spend. These civil servants are struggling, trying to find savings wherever they can. There is generally an unhelpful imbalance of power in the Departments between the people who decide on jobs in the procurement and those who have to operate it. Going to Mr Chalmers's point that in bid teams, you have the people in the bid team who will be able to do it, what you get in Departments is that the people who make the procurement decisions and choose the lowest price never have to do the operational side of it. But don't underestimate; they have got a huge challenge. They have got to save hundreds of millions of pounds. They will take it where they can get it. If in doubt, when given the choice between a bit of extra quality and £10 million off the price, they will take £10 million off the price.

Q568 **Chair:** I guess you didn't have to bid for them.

**Philip Chalmers:** In the interests of brevity, we regularly see 60% scoring on price now. It used to be 30%—it keeps moving. The last bid that we put in, the evaluation was 60% on price. That is too high.

Q569 **Chair:** That is very interesting. The very final point is about something that Mr Soames talked about: the living will. I do not know whether that means something different from contingency plans. I understand that those of you running prisons have to have contingency plans in place as part of the contract, because you cannot just walk away from a prison. Am I right that you have to have contingency plans and you couldn't just walk away from your prison? One of you would have to take another's prison over. Is that how it works?

**Sean Haley:** My understanding is that every contract we have with Government has a contingency plan.

Q570 **Chair:** Because when Carillion collapsed, the Government were running around trying to develop contingency plans. By a miracle, none of that information leaked and Carillion was not aware of it. Mr Soames earlier talked about knowing that there was contingency planning in place when you were having a rights issue and being aware of that. Do you have any understanding of what is going on in Government, how well it is going and what role you should be playing as deliverers of public services in ensuring that services you are operating do not fall over if there has been a problem? We heard quite a lot earlier from Mr Chalmers about the handover to Maximus, so that is particularly for Mr Haley and Mr Soames.

**Sean Haley:** I would be reasonably comfortable that on an individual contract basis, we would have contingency plans with our customer. I am not sighted on anything that goes across the whole portfolio.

**Rupert Soames:** The proof of the pudding is in the Carillion eating, and the Government have got it right. I know that there were quite a lot of problems with the local authority. Central Government did okay, but they did have nine months to prepare.

Q571 **Chair:** Had Carillion collapsed in December, it would have been a very



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different matter.

**Rupert Soames:** It probably would have been a different matter, but they were working bloody hard on it. A living will does not have to be a big thing. It can just be basic data about who the employees are, how much they are paid and who the major subcontractors are, which could be picked up and given to Government. The other thing is that the Government were seen scurrying around, asking Government Departments, "Have you got any contracts with Carillion?" Well, go and ask Carillion and they should have an obligation to tell you who their contracts are.

**Chair:** The papers we have already released on Carillion and the work that our sister Committees have done demonstrate that. I thank you all very much for your time. It has been two and a half hours, so I appreciate the time you have given. We will be producing our Report with this part of our work by summer. It may be chapter 1. We do not know how many chapters we are going to write yet. We will see where we get to. We are keen to ensure that you and the Government deliver good quality public services for the taxpayer. We obviously watch the value for money—that is quality and price—so we are excited to see where we can push Government on this. Thank you for your input.

The transcripts of all our hearings go on the website. This part will be up in a couple of days, uncorrected. I am sure you have got people in your office who will be crawling through it, and *Hansard* has rules about what they are allowed to correct. It is usually very accurate, thanks to our colleagues at *Hansard*. Thank you for your time. We will keep in touch and send you copies of all the documents when we produce them. We look forward to the letters that you have variously promised to send us. Thank you.