

Public Accounts Committee

Oral evidence: [Strategic Suppliers](#), HC 1031

Wednesday 20 June 2018

Ordered by the House of Commons to be published on 20 June 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Chris Evans; Caroline Flint; Anne Marie Morris; Bridget Phillipson; Lee Rowley.

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

Questions 674-840

Witnesses

[I](#): John Manzonei, Permanent Secretary, Cabinet Office, Gareth Rhys Williams, Government Chief Commercial Officer, Cabinet Office, and Coleen Andrews, Director, Markets and Suppliers, Cabinet Office.

Reports by the Comptroller and Auditor General

A Short Guide to Commercial relationships (December 2017)

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

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)

Examination of witnesses

Witnesses: John Manzoni, Gareth Rhys Williams and Coleen Andrews.

Chair: Good afternoon and welcome to the Public Accounts Committee on Wednesday 20 June 2018. We are here today as part of our inquiry into strategic suppliers, including what happened with the collapse of Carillion. Having met a number of strategic suppliers in recent weeks, we are pleased today to be talking to Cabinet Office officials about the way the Government contract with large outsourcing companies. I just remind people that a strategic supplier is a company that does business with central Government that equates to £100 million or more, and there are 27 remaining now that Carillion has collapsed. I see Ms Andrews nodding, so I am glad that I made sure I got my maths right on that to start with.

I won't repeat what happened with Carillion; we know what happened. We are really keen today to have a discussion with you about how things are working—what is working and what is not—and to put to you some of the things that we have heard in the course of our inquiry. We intend to put the report out by the summer.

I want to introduce our witnesses. Ms Coleen Andrews is the director for



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markets and suppliers at the Cabinet Office—welcome. John Manzoni used to be a frequent flyer here, but has not been recently, so welcome back, Mr Manzoni—lucky you, or unlucky you! He is chief executive of the civil service and permanent secretary at the Cabinet Office. Gareth Rhys Williams is the Government chief commercial officer. Thank you very much for your letter, Mr Williams. We probably understood the issue in the NAO Report, but it provided clarity, which is useful. We won't touch on that today particularly, but thank you for the letter.

We gave you warning of another question that we wanted to ask, because we are preparing for another hearing in a week or so. So I am going to ask Sir Geoffrey to ask about the nuclear programme.

Q674 Sir Geoffrey Clifton-Brown: Good afternoon, Mr Manzoni. In preparing for our hearing on nuclear submarine procurement, we were looking at the personnel involved in both the Nuclear Enterprise and the Submarine Delivery Agency, and we were struck by what seemed to us to be a relative lack of people with good commercial experience. Considering that is such a big contract, it seemed to us that it needed quite a lot of people with good commercial experience to be able to run those programmes. Would you like to comment on that?

John Manzoni: Other than to agree with you? I think it is true that in the MoD as a whole we have made some recent appointments of senior commercial people. The Nuclear Enterprise and the Submarine Delivery Agency were set up, as you know, as a result of the SDSR 2015, precisely for the reason that you said: because the construct with industry for that particular programme is really complicated. It has taken some time. The DG of the Nuclear Enterprise was appointed and has been in place for, I think, 12 months. That is Julian Kelly, whom you may know as an ex-Treasury official. Then the chief executive of the Submarine Delivery Agency was put in place. I think we are in discussion right now about beefing up commercial capability. There is quite a lot to do; because it is all a new structure, there has been quite a lot to do for them, I think, but they are now at a place where they, we and everybody else recognises that they need a lot of commercial capability in both organisations, and that is exactly their intent and our intent.

Q675 Chair: I know that they have freedom on salaries, but it was difficult enough to appoint Julian Kelly, who in the end was somebody from within the civil service. That was because of the challenges of recruiting to that role; I am not in any way denigrating him. Are you going to be able to find people with the right level of commercial expertise for the money you are able to pay them?

John Manzoni: I think the answer to that is yes, but maybe Gareth has more direct—

Gareth Rhys Williams: We are in the final stages of recruitment for a commercial director for the Submarine Delivery Agency, and I am hopeful that we have landed a really good candidate, within the pay freedoms that the GCO has. And we are about to appoint someone in the Nuclear



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Enterprise to manage some of the contracts that they have. Then, particularly within the SDA, I expect they will fill out that organisation once they are in place.

Q676 **Chair:** Do you have oversight of those appointments as chief commercial officer?

Gareth Rhys Williams: They are shared. The panel was Ian Booth, who runs the SDA, me and the commercial officer in the MoD—so yes.

John Manzoni: Sensible oversight—

Q677 **Chair:** We are very concerned about the high percentage of vacant posts. This Committee last looked at this in 2009—I think Sir Geoffrey may have been on the Committee.

Sir Geoffrey Clifton-Brown: No, I had gone by then.

Chair: Just gone. So it is nine years since we last looked at this issue. We will obviously be challenging them in a week or 10 days' time or so, but we may come back to you as well on this, because it is a hugely important area. That brings us on to the hugely important area generally of these large strategic suppliers to Government. Mr Manzoni, what do you think is working and what do you think is not so far? Because you have been here for a while now, trying to sort out commercial—

John Manzoni: Chair, do you mind if I first—with your permission, on the basis of several requests—make a small statement on the record?

Chair: You are on the record here.

John Manzoni: All of these reviews, panels and Select Committees have been asking what on earth went wrong with Carillion—

Chair: We are not talking particularly; we are talking more generally—

John Manzoni: I know, but I want to make a statement about the almost thousands of people who have been working since the collapse of Carillion.

Q678 **Chair:** Okay, I will give you an indulgence, but very briefly please, because we didn't expect this and we have a lot of questions that we want to ask you.

John Manzoni: Thank you. It is brief. We have saved more than 75% of the jobs and not a single lost-time incident has happened since that breakdown, nor a blip in public service. There are thousands of people inside the civil service, in Carillion, in PwC and in the official receiver, and I just want to say thank you to them, because I think it is important that we do that. That was the only thing that I wanted to do.

Q679 **Chair:** Okay, that's fine. We don't really like to be used for that kind of thing—you can say thank you in other forums.

Generally, you can look at the overall issue of contracts with large strategic suppliers and in the time you have been here in Government now for five years—



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John Manzoni: In this job, four.

Chair: Prior to that you were looking at this as well. So what do you think is working well, and what do you think still needs improvement?

John Manzoni: We always need to improve. The programmes that we have in place in the Cabinet Office and are now expanding across into the civil service, such as the commercial function under Gareth and the strategic supplier programme under Coleen, I think are beginning to work. We are having much more intelligent conversations with the very top of the 20, 30 or even more strategic suppliers we have named. We now know, for instance, exactly what they do across Government. We can therefore understand their condition, which is going well. It can always be done better, but I think it is going well.

We are in much more sophisticated dialogues; they are increasingly not a transaction and a purely price-based discussion with our major suppliers across Government, which I think is very important. Of course we can talk about the boundaries and things, but I think that is going well. By the way, I think we are also going back in and fixing every now and again where contracts are not working—not unsurprisingly in some cases. We are having much more intelligent dialogues about some of the contracts that are not working. By the way, the majority of them really are working extremely well.

Chair: We've seen the papers, so we know—

John Manzoni: You asked me what was working, so I am just telling you that lots of them are working, and a few are not. So I think these programmes, and the programme of getting closer to the suppliers—understanding them more; having more conversations about what the interface between the public and private sector needs to look like—is going better. I am not saying that it is fixed, but I think it is going better than it was, because it was not going at all just a few years ago.

Our capacity to handle unexpected events is improving, by virtue of the same thing, and our general skill base under the commercial function and the skill building is increasing. So we have done phase 1, which is the procurement phase. There is a whole second phase, which the team is just embarking on, involving the contract management, which tends to be much more distributed and broad. There is now a funded programme broadly to do that, so I think we can look forward to that getting better. That is my summary.

Q680 **Chair:** Okay, so that is what has gone well. You have highlighted some of the things that still need to be done, but what is the bit that worries you most about this whole commercial function and relationship with strategic suppliers?

John Manzoni: This is not a secret, but we have a sector of this market that has not found itself in a healthy position: the FM outsourcing sector. You have seen many of them here. That is the result of a progressive set of activities—which, by the way, the industry takes some responsibility for



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and the Government take some responsibility for. That is the result of a process over many years that progressively degraded their profit margins over time. They have all more or less restructured. They all have new executive teams. Many of them have gone to the market to raise new funds. Some of them carried on going and hit the sand, and the others are now on a different path. That has not gone well, and we have to build rather carefully back out of that.

Looking at different sectors, between the public and the private sector, we are doing well on SMEs in the IT sector. We are not doing as well as we would like on small and medium-sized enterprises elsewhere in Government procurement, but we have now landed upon a construct that I think will give us better traction on that—but that is not going swimmingly well. It is better than it was, but it is still not where we want it to be. So there is all of that.

As a general statement, I think that, as Government, we should not be satisfied with our relationship with the private sector. We should never be satisfied, but I am not satisfied with it and I don't think the team are satisfied with it. But are we better than we were? Absolutely.

Q681 Chair: Well, I would hope that we are better than we were, given that you have been here for a number of years trying to sort it out. I remind you that we are expecting a vote in the House at about a quarter to 4 and we may have to come back afterwards. I just wanted to alert you to the fact that you may get an extended comfort break at that point unless we are very fast.

It is helpful to hear your thoughts about what is working and what is not. We heard concerns from a number of suppliers about the relationship between the Cabinet Office and Departments. A number of them said that they very much liked working with you, Mr Rhys Williams, and your team, but they are concerned that, when they have to talk to Departments about particular contracts, the level of skill and expertise is not always as good. That was their view; I am just repeating it to you so you can give me your thoughts on it. Do you agree?

Gareth Rhys Williams: Well, let's pass over the skill comment. This is a federated structure and there are no hard levers from the Cabinet Office into Departments. I would add to what John said in response to your previous question that one of the things that has changed dramatically over the last two years is the way the commercial directors in Departments and, for example, Coleen's central team are working as a group—as a one-Government customer. I think our vendors are seeing that, particularly the ones you have met, who touch multiple Departments. They are seeing us increasingly as a one-Government customer, and that is good. That is dragging up their levels, because they know we are talking to each other, and literally every day—every hour—there are working groups across town. That is going well.

However, a lot of the contracts that have been raised with you in written evidence and oral evidence are loss-making contracts. Departments are



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under extreme pressure to deliver savings, and there is therefore a tension between money now for a Department that can see an opportunity to save some money and a view that says, "Hmm, is that sustainable?" That is where I think some of the tension is.

Q682 **Chair:** Is that a problem in the commercial function or more in the strategic function of Departments' policy making?

Gareth Rhys Williams: I think that is between commercial and finance. It is a balance of risk. We think, "This is quite close to generating a loss-making situation for a vendor. That will mean either that they come back asking for more money later—bad—or that they trim service fairly soon—bad—but it delivers cash saving for the Department now—good." There are those tensions that we need to work out. One thing that has changed dramatically over the last couple of years is the amount of trust between the vendors and ourselves on RAG ratings, on KPI ratings and on open book profitability, which I know the NAO has seen some of. We did not have any of that a couple of years ago. That is allowing us to be more precise with Departments about the situation of a vendor under the contract. So I think this is a progression, as John said. We have made dramatic progress, but we are not there yet.

Chair: I will leave it there for a minute. I am going to ask Sir Geoffrey Clifton-Brown to pick up the questioning.

Q683 **Sir Geoffrey Clifton-Brown:** Perhaps I could just continue where I was, Mr Manzoni, if you would not mind. The Government employs about 3,500 people with commercial experience and in your Department you employ, I think, 750. Firstly, is that balance right, and secondly, does the Government have enough people with commercial experience to procure the very large amount of money that it spends each year on procurement?

John Manzoni: I do not think we are finished. The structure of the function happens to be that many of them, or some of them, are employed directly by the Cabinet Office, but essentially they are deployed out into the Departments, so that is a construct to manage the pay and structures. A large chunk of the 750—it is a bit more than that in the Cabinet Office—are the central procurement organisation, the Crown Commercial Service.

The answer to your question is no, we are not finished, and we still need to build out. I think, as I have said, we have probably built the senior structures for the procurement part of this. Where we need to keep going is the contract management part of it, which comes after the procurement. That is often embedded more deeply into the operational structures of the Department, so that, for instance, we can more intelligently track those KPIs as the contract is going. We can flag up if we think there is an issue that merits a more strategic conversation, as opposed to "No, just carry on meeting the KPIs." I think there is a lot further to go in this, actually.

Sir Geoffrey Clifton-Brown: A lot further?



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John Manzoni: Of course. I think one can never be satisfied with the level of capability and skill in the system.

Q684 **Sir Geoffrey Clifton-Brown:** Would you like to put some sort of quantification on that? You have got 3,500 at the moment. Where should it go?

Gareth Rhys Williams: I think it is more a sort of skilled mix. Over the last couple of years we have been running these blueprinting exercises with Departments, right-sizing the commercial functions in each Department. For the same cost—net neutral or better—we have changed the shape of those commercial directorates: more highly skilled people and fewer lower grade people. I think that process has probably got further to go. The trade-off comes in—one of the things that I am sure we will come on to talk about is the size of contracts that we let. The more people we have in the commercial organisation, the smaller the contracts we can let. From a risk point of view, and perhaps from a supporting SME point of view, we would want to let contracts in the second tier down—the tier-2 level—but that will take more people. That is really a policy discussion, as to whether we want to do that or not. So that is one driver.

Q685 **Chair:** Basically, you are building in more overhead.

Gareth Rhys Williams: You are building in more overhead to avoid that top part of the triangle—

Chair: We get the picture.

Gareth Rhys Williams: It is a trade-off. I think it probably does pay back but it is more civil servants, which is not necessarily the direction of travel.

Q686 **Sir Geoffrey Clifton-Brown:** It is the mix of civil servants.

Gareth Rhys Williams: That is for the people letting the contracts. What John was starting to talk about are contract managers, who are rarely full time on a contract. They are colleagues working in operations, principally, or logistics or policy, who as part of their job manage contracts. Now we have got a much better cadre of people letting the contracts and managing the vendors. Now is the right time to start upskilling the number of contract managers. That probably does not change their number; it is just about training them properly.

Q687 **Sir Geoffrey Clifton-Brown:** Just taking that reply, we have taken evidence from quite a lot of your big strategic suppliers, as you know. They tell us a number of common themes. One of the common themes that they tell us is that particularly in some of the bigger, more complex contracts, where there is a lot of outsourcing—a lot of transformational change that has not been done before—these contracts are not properly scoped and designed in the first place, and they are leaving too much risk and too much unknown element for the bidder to try and perform.

Gareth Rhys Williams: Yes, I would agree with that. There are 10 or 20 contracts of the thousands across Government that are in that pond. It is the case that these complex outsourcings are quite complicated. It is now



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a question not so much of the calibre of people doing them, but the time we have to do it. More people means shorter time, but actually some of these things— I think there are comments in the NAO Report and some of the written evidence you have had about the need to run pilot schemes and comparator schemes to make sure that we have good baseline data, so that paying for performance has a good baseline from which to start. That is more about the length of time we have available than the number of people.

Q688 Sir Geoffrey Clifton-Brown: You talked about the ongoing contract management, which in a number of our inquiries we have found to be relatively poor. Another common theme from what they told us was that when designing the contracts—particularly more complex ones—the contract managers were not involved in their inception. The contracts were conceived and let and then given to the contract managers, who were told to get on with it. They weren't there at the inception, so they had difficulties in managing them, in some instances, because of the way it was let. Could you do more through your commercial directors to make sure that there is more synergy between the two bits of the Departments?

Gareth Rhys Williams: The contract managers rarely work for the commercial directors; as I said, they usually work with their operations and policy colleagues and so on. You are absolutely right: we need to move to a multifunctional-by-default way of thinking about project teams, with the policy colleague who originates the policy for the Minister, the commercial people who put it together, the finance people, the project manager and the people who will eventually manage the contract. However, we are a fair way from that.

Q689 Sir Geoffrey Clifton-Brown: A fair long way from that? It is fairly elementary, isn't it?

Gareth Rhys Williams: Some of these contracts take three or four years in gestation. It sounds very simple, but actually organising it is not so simple.

Q690 Sir Geoffrey Clifton-Brown: Another common theme from what we heard from some of your suppliers was unfair contract terms and conditions, particularly in taking on risk that really only the Government can control. That is things like increases in taxation, council tax, unquantified liquidation charges and so on. What more can you do to make these contracts fairer?

John Manzoni: Let me deal with that. I think they have got a point. I have read some of the testimonies, and some say that we put all the responsibility for all the due diligence on to the contractor and refuse to take any. That is not always the case, but of course sometimes it is, and I think they have a point. There are certain risks that only the Government can take, and we need to be better at recognising what they are and not trying to outsource them. That is not uncommon. When outsourcing first began in industry, the presumption was that if you lobbed it over the fence they would sort the problem out. That rarely works. The private sector



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cannot sort your problem out. You have to be clear what your problem is and then contract in an intelligent way for it. I think we still have a bit of that going on occasionally—not across the board, but occasionally.

There are sets of things that I think we do incorrectly, but it is a balance, isn't it? There are some things that one part of Government might do that change the conditions of a contract that puts a contractor under water. The contractor might say that is not fair, but equally what if the VAT or something else changed? It is a dialogue. You can't really formularise it. It is about the intelligent application, and I think we can always do better. So I think they have a point in some cases.

Q691 Sir Geoffrey Clifton-Brown: Is there a greater scope for pre-contract discussion with your potential suppliers?

John Manzoni: Yes.

Sir Geoffrey Clifton-Brown: Getting them in a room and saying, "Well, this is what we are thinking about doing: tell us why we have got wrong."

John Manzoni: One of the big lessons and actions out of what happened with Carillion has to be that we need a more robust process up front. That process needs to be sure that we have the structure of the contracts right, that we have the risk-sharing right and that the contractor can structure that contract inside his or her company. There is a lot of work to be done on this, and we can always do more. It is always better to do that thinking up front, and I think that will be something that we will do more of going forward.

By the way, that might include saying, "Actually, we need to run this as a pilot, or we need to run a mixed mode for a year or two so that we can really understand the baselining" so we then know how to contract it properly. All of that comes from Carillion.

Q692 Sir Geoffrey Clifton-Brown: One of the saddest things that came out of the whole Carillion debacle was the number of suppliers who are now in difficulties as a result of Carillion going into liquidation. In the first five months of 2017, Carillion were taking on average 45 days from the first invoice date, yet you were monitoring them very carefully. What more can you do to ensure that in large contracts with many small and medium suppliers there is adherence to the prompt payment code? And what more can you do to make sure you are checking that they are adhering to it?

John Manzoni: It is very hard to mitigate against the situation in which a supplier has reached agreement with their suppliers voluntarily—Carillion in this case—such that the suppliers were agreeing with Carillion that they would have some different construct. That is quite hard to get at.

Q693 Chair: That is interesting in the circumstances. A haircut for a prompt payment does not sound like a voluntary agreement to us.

John Manzoni: It was a voluntary agreement through third parties.

Q694 **Sir Geoffrey Clifton-Brown:** But they were using their size as a bargaining factor.

John Manzoni: Yes, but that does not mean to say we should not do better on our prompt payment code. BEIS has a process now where we are going to get more transparency on prompt payment. We are going to reboot the mystery shopper so that there are channels where people can say, "Hang on a minute, this is not working for me." So there is a lot we can do. We have the prompt payment code and we do try to police it as best we can. It is not policed as well as it could be and we can do better going forward.

Q695 **Chair:** Ms Andrews, does this come under your purview when you are dealing with suppliers? We have had them all come and promise to us that they are working towards 30 days, or at least investigating it. Suddenly there is this damascene conversion, but we are not clear how you are evaluating it. Some said they reported in, and they are not clear whether you checked that or not. So that comes under your remit.

Coleen Andrews: Yes. Last year we started an annual review process with all the strategic suppliers, and asking and going through what their payment terms were, particularly on Government work, was part of that annual review.

Q696 **Chair:** I suppose you do not audit it yourself, but how do you assure yourself that what they are providing you is accurate?

Coleen Andrews: This is always the issue. It is very difficult to audit payment days, because you have thousands and thousands of invoices—

Q697 **Chair:** It would not be sensible for the Government to audit an individual company's payments, but how do you assure yourself that the information they are providing is accurate?

Coleen Andrews: Yes. As John mentioned, there is a new database in BEIS called the payment practices reporting database, and this will be a very important tool for us in the future. Basically, any company in the UK who have over 250 employees have to, twice—every six months—submit their payment data. That data must be signed off by a director of the company.

So we will have a tool where it is a bit more formulaic—the average time to pay, the percentage paid within 30 days and within 60 days, and whether they comply with the prompt payment code and so on—and a director of the company has to verify that data. That is made publicly available to everyone, so not only will we have access to that data but any SME in the country will also have access to that data. The system is rolling out throughout the year, so by the end of this calendar year all of the strategic suppliers will be reporting their data.

Chair: So perhaps it is not just because we are asking questions that they are all rushing to 30 days—there is a double-pronged attack.

Q698 **Sir Geoffrey Clifton-Brown:** Mr Manzoni talked about Carillion making



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their own arrangements with suppliers. If you had had a prompt payment code enshrined in their contracts, they would not have been able to do that. Can you do more when you let these contracts to put that in a contract and say that, if they do not do it, there will be consequences?

Gareth Rhys Williams: There are two prompt payment codes. There is a prompt payment code that covers all vendors, which our strategic vendors signed up to for both their public and private work. Then in our contracts we pay in 10 days and, as part of the contract, they have to pay down in 30 and make sure that sub-tiers pay down in 30 as well.

The interesting thing, to follow on from what Coleen was saying, is that we are looking at—it is out for consultation at the moment—how we use that BEIS database to stop people bidding if they are not compliant. So that is out for consultation at the moment and I think that ends sometime in the summer. We have found a way of squaring that with the procurement regulations—

Q699 **Chair:** You have found a way.

Gareth Rhys Williams: That consultation is out at the moment.

Q700 **Chair:** You have found a way of squaring it with procurement regulations.

Gareth Rhys Williams: Yes. It is out for consultation with industry and other interested groups—FSB and so on—to see what they think about how we are going to apply that.

John Manzoni: It is quite clunky to meet that requirement and stick within procurement regulations. I am not sure it will be all that easy, but that is what the intent is.

Gareth Rhys Williams: But it is a dramatically better place than where we are today.

Q701 **Sir Geoffrey Clifton-Brown:** Carillion was the worst example of the biggest pension fund deficit, and a number of your other strategic suppliers—not all—have quite significant pension fund deficits. I should think the single biggest cost to the taxpayer of Carillion will be for the pension regulatory body to plug the gap. What more are you doing to ensure that these deficits are reduced in letting your contracts?

John Manzoni: First, it isn't actually a taxpayer cost to plug the pension hole in Carillion. It is a private sector cost. The Pension Protection Fund is funded by the private sector.

My answer to your second question is that pension funds have to be separately regulated by the pension regulators. We cannot make judgments on behalf of the companies and the attribution of their cash between dividends, pension funds and reinvestment. We have to be mindful of it, but I have to say we ought to rely on the separate regulatory processes that oversee that structure.

In the case of prompt payment, we can be mindful of that if we think that something is going wrong, but it is not something that we as a contracting authority can sensibly go too far into. As for that sector of



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industry, Capita, for instance, has explicitly raised money in order to put some money back into its pension deficits. Another one of our big suppliers does not have a pension deficit at all. Several of them don't. So we have to be mindful, but I am not sure that we should say we are going to use it when there are other mechanisms to regulate that very issue.

Q702 Sir Geoffrey Clifton-Brown: Can I just challenge you on that? This is in the sense of a genuine discussion. If a company had a huge pension fund deficit, as Capita did, although it does not now, and it was paying out significant dividends and goes into liquidation—take Carillion, for example, because it did go into liquidation; let us not cast aspersions on Capita—and the pensioners end up with a pensions fund body whose name I cannot recall, those pensioners will lose out. So surely it is a matter for the public sector, when making its procurement, to make sure that those big procuring firms' pensioners are properly protected. Are you therefore liaising with a pension fund regulator to see what position each of your big procurers is in?

John Manzoni: Maybe Gareth has more to say. I would say that we need to be increasingly aware of it. I am not convinced we should go too far into the management of their pension deficits and their directors' choices about what they do with their cash in their company. That gets quite tricky.

Gareth Rhys Williams: We can talk about the links that we do have with the Pensions Regulator because Carillion has brought that to the fore. If someone has a pensions deficit that is of such a size that the trustees are alarmed and call in the Pensions Regulator, the regulator will then set a workout plan to get back to a situation they are happy with. We cannot determine that plan. We are not pension experts. All we have is the very broad pension data on deficits such as the sort of stuff we have here. What we can perhaps do is know whether or not the company is complying with that workout plan. As John says, for us to get involved and say this company is bad because its pensions deficit is bigger than that company's, if the first company has a better workout plan than the second—

Chair: I think we may be getting into a policy issue—whether a company should run a pension deficit. We will pause on that point and move on to Mr Lee Rowley.

Q703 Lee Rowley: Thank you. You were talking a moment ago about how, through the work you are doing, this sector is being substantially pulled up and made better. There are data contracts, and then you are going on to the management perspective. How are you quantifying the achievements that have been made so far? Take data as an example. How are you quantifying that it is better than it was?

John Manzoni: Do you mean how much progress we are making?

Lee Rowley: Yes.



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Coleen Andrews: On the strategic suppliers specifically, when I joined just over four years ago, we had really very little data. We had some contractual data, but we didn't have data about other parts of their business. Over the years, through the Crown representatives and my own team, we have built up quite a lot of data—not only on open-book margin data—

Q704 **Lee Rowley:** But the assertion was that data has gotten better. How are you quantifying that the data is better on an individual contract and, as an aggregate, on the set of the contracts you are looking at? What is your dashboard to prove that the data two years ago was not good, and the data now is better?

Coleen Andrews: Because on a lot of the suppliers we now have one piece of paper, where we know what the performance rating is for each of their major contracts across Government. Four years ago, we did not have that information, and it would have taken us months to get it.

Q705 **Lee Rowley:** But performance is not a proxy for data. You can say that your performance is great, but if your data underneath it is rubbish—

Coleen Andrews: The performance is based on the underlying KPIs, but we are working more to get a system so everyone across Government can see that. The people in the Departments can see it just as easily—

Q706 **Lee Rowley:** But how do you know the data is better? How do you know that the dump of data you have got on a set of contracts today is quantifiably better than the dump of data that was being used for a set of contracts two years ago? What is your way of measuring that?

John Manzoni: It didn't exist two years ago.

Lee Rowley: Fine.

Coleen Andrews: One is existence, and the second is agreement.

Q707 **Lee Rowley:** What is existing today? How are you looking at a set of data and saying, "It is better"?

Coleen Andrews: As John said earlier, four years ago, we didn't have it. Two years ago, we had some, but it was not always agreed upon. The Department would say, "This contract is this", and the supplier would say, "We don't agree with that." For over half of our strategic suppliers, we have that data, and the departmental view is the same as the supplier view. That is not an easy place to get to all the time.

Q708 **Chair:** We have obviously seen a lot of the papers that you see regularly. We published the Carillion set of papers, which provided certain information about the performance of the large strategic suppliers. A lot of that was quite light on numbers. It was press reports. The Carillion set gives an idea of what was in there. Can you detail what type of information you are collecting and—to pick up on Mr Rowley's point—what you still need to do to get it to a place where it is useful, and where it warns about things like where Carillion had got to? Even before it



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collapsed, it was financially in great difficulties.

Coleen Andrews: We started a programme, in which we brought in strategic partnership managers into my team. They are senior civil servants who came in to support the Crown representatives. They work full time with one or two suppliers. They work across central Government with the contract management teams. They regularly collect the data, both from the supplier and that side. That doesn't go in the risk assessments.

Q709 **Chair:** What data, particularly?

Coleen Andrews: The actual KPIs that are being measured in each of those contracts.

Q710 **Chair:** Okay. And performance on the KPIs, presumably.

Coleen Andrews: Yes, performance on the KPIs. We then look at everything else with the supplier—how they comply with various Government policies on SMEs, apprentices, etc. We also look at all of the financials, and that is what we review from a risk monitoring standpoint at the commercial relations board. Those are the risk assessment papers that you have.

Q711 **Chair:** So half of your strategic suppliers also agree with the information you hold. You share it with them.

Coleen Andrews: Yes.

Q712 **Chair:** So you don't share some of the papers we saw with the strategic supplier, because obviously it lists the RAG rating.

Coleen Andrews: No, because those are the risk assessments. That view is formed from all of the rest of the data that we have. That is the one-page form we use in the commercial relations board to help decide the risk rating.

Q713 **Lee Rowley:** If we move on from data, you said that the contracts are getting better. How can you prove that? What evidential basis do you have that the contracts that are being written by the Government now are better than the contracts that were being written two or three years ago?

Coleen Andrews: From a performance standpoint, or how they are written?

Lee Rowley: How they are written, because from that, everything else flows.

Gareth Rhys Williams: A few years ago, we launched a series of model contracts—standard contracts. Part of the problem is that one Department will use this group of lawyers and a different Department will use that group of lawyers and so on, or a vendor will turn up with their standard contract. It is important that we have our own standard set. Is that totally 100% pervasive across Government? No, but increasingly so it is. With



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that consistency, it becomes better, because everyone understands the format and the words that are used there, and that leads to fewer disputes down the track about interpretations.

Q714 **Lee Rowley:** But how are you measuring that? How do you know that you have fewer disputes? Have you seen fewer disputes on the basis of the contracts that have been issued? How many fewer? What is the drop, percentage-wise?

Gareth Rhys Williams: We do measure the number of disputes. I have a quarterly chart that shows the number of disputes. I do not yet have all Departments completing that. It is looking better—

Q715 **Lee Rowley:** How is it looking better? Tell me how you are quantifying that. If the answer is, “You have to trust me, I’m an expert. I’ve got excellent reviews”, that is fine and I understand it, but it is a subjective judgment of the three people in front of us. What is the objective analysis to say that it is getting better?

Gareth Rhys Williams: I collect the number of disputes every quarter, and that is looking better, but what I was saying before, Mr Rowley, is that that is from a limited number of Departments. It could be that I have just got the better Departments. Until I have got the full set of data, I cannot prove it, but that is the direction of travel in which we want to go. We want to know how many disputes, how many contests—

Q716 **Lee Rowley:** What is the drop in disputes quantum-wise? Is it substantial?

Gareth Rhys Williams: From memory, it is 20% or so. I was not expecting the question, so can I send you the data on that?

Q717 **Lee Rowley:** I get that this is a work in progress, but I would be interested in anything else that you can provide as an indication that the work is evidentially working. When do you expect to be able to come back here and say, for example, “Here you go. Here is my dataset that shows what I have done over the past X years and what that has achieved on disputes, supply management, data, the volume of issues, contracts being successfully renegotiated”—whatever the KPIs are that you are using?

Gareth Rhys Williams: One thing we also measure is a RAG status for individual contracts. We have talked about the RAG status with vendors that you have seen, but we have a RAG status on each contract. We also look at where they are on KPIs. Coleen tracks that further strategic stuff.

Coleen Andrews: The partnering managers on my team are involved with more than 100 contracts each year across the group of strategic suppliers. We measure how many are red, how many move to amber and how many move from amber to green. We are even getting a few moving from green to platinum, which is something we probably have not ever had before.

Q718 **Chair:** Platinum? That’s a new one. What does platinum membership of



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the strategic suppliers give you?

Coleen Andrews: If you have a platinum rating, it means that you are essentially able to do new things together with the supplier in that contract. You are still within the contract confines, but you are looking at bringing innovation into the contract that was not previously written out specifically in the contract.

Q719 **Chair:** What we have heard from the strategic suppliers we have spoken to is that that could act as an incentive for them to get their house in order. Is that happening?

Coleen Andrews: Yes, they all get very excited about the idea of a platinum contract.

Q720 **Chair:** How many have you got that are platinum?

Coleen Andrews: Two.

Q721 **Chair:** Can you name the platinum ones?

Coleen Andrews: It probably would be a bit unfair on the Departments at the moment to do that, but we have reduced the number of reds significantly over the last 24 months, and we are adding more contracts on to the list of what we are monitoring every month.

Q722 **Lee Rowley:** You are going to a very interesting place, if you don't mind me saying so. You are asking us to use your RAG rating as an entire proxy for your data, contracts and supplier management. I would have thought that you would have wanted a little more flexibility there, because some contracts do not work—some contracts are problematic. You have hundreds and hundreds out there. If you want to do that, fine. Tell us, and we will evaluate you solely on your RAG rating. Otherwise, please tell us what we should be evaluating you on. Please tell us when we should be inviting you back so that we can have evidential data that demonstrates that you have achieved what you are claiming is happening anecdotally at the moment.

Coleen Andrews: Sure. The RAG—red, amber and green—ratings are based on performance of KPIs. So we have an agreed definition of those RAG ratings between the Departments and the suppliers that we are monitoring in this way. We try to take everything down to very fact-based conversations, because I think that where we were several years ago was having very emotional conversations between suppliers and Departments. And once you have the facts established and everyone can agree on the actual performance, then you can start to put in place improvement plans.

So a number of improvement plans have succeeded and even if the contract is red because the contract wasn't written, we look at ways to make the contract work. Does the contract need to be restructured? Do we need to go back and look at what we can change within the construct of the contract to make it amber and to get it to green? You can't take a contract from red to platinum. It needs to go—

Q723 **Lee Rowley:** I understand that. What are the facts that I should evaluate



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you on and when will those facts be clear?

Coleen Andrews: I think the RAG ratings from a performance standpoint on our key contracts are a very good way to measure, because it is based on the underlying performance of KPIs and what percentage of our improvement plans that we put in place have worked.

Q724 **Lee Rowley:** Okay. So we are going down the road of evaluating you on the basis of RAG statuses. What are the current RAG statuses across your estate at the moment, roughly?

Coleen Andrews: Of the 100 that we are working on now, just under half are red, probably another third are amber, and the remainder are green, except for the two platinums. And every month we evaluate how those change, and it is part of the objectives of everyone on my team to move the reds to ambers and the ambers to greens.

Q725 **Lee Rowley:** All the great work that you have told me about will get us to where by when, with that 100 population?

Coleen Andrews: Well, we keep expanding the 100. Right?

Q726 **Lee Rowley:** Tell me what the population is, if it isn't 100—

John Manzoni: If I may—of course we should be fact-based. Could I suggest that you get the suppliers in, in two years' time, and you ask them whether or not it's getting better, because of course the baseline is changing?

Q727 **Lee Rowley:** I am asking you to tell me how I should judge you, in a period of time that I am asking you to define, so I think I am being quite reasonable. I want you to tell me what I should judge you on, by when. I want numbers.

Gareth Rhys Williams: Can I add a different thought?

Q728 **Lee Rowley:** As long as it is relevant.

Gareth Rhys Williams: What we want to do is add more and more contracts to that pool that are being managed. So we actually want to pick on the difficult contracts, but this is a co-work between us and the vendor base. So I think that setting an arbitrary target—

Q729 **Chair:** No, no—Mr Rowley is not setting an arbitrary target; he is pretty open. He is saying, "Give us an idea of where and by when?" You know, what does "good" look like for you? If you are still at the same place in two years' time, you might say that's "good" because you're dealing with some very challenging contracts in that red group. Mr Rowley has said, "Set the parameters," so can you do that? Give us an idea. We like to have some way of measuring. Otherwise, the next people in your job can wriggle out of it, frankly.

John Manzoni: I think we should come back to you and give you some way of judging commercial performance across Government. In the end, it will be some combination of RAGs, of KPIs, of inquiry of the vendor base—



Q730 Chair: But the point is that Ms Andrews has gone into quite some detail to explain how those RAGs work and she has been proud—understandably—about a couple getting to platinum; a whole different ball game, a whole different relationship. Presumably they are not all going to get to platinum, because for some of them that would be very challenging. So you are not saying, in answer to Mr Rowley, 100% will be platinum in three years' time. But have you got some range that you would hope, and how many of them will always be very challenging, just because of the nature of the contract, which may then throw up other questions?

Coleen Andrews: The objective I give my team is that any of the red contracts they are working on should, within six to 12 months, have been moved at least to amber, if not green. If we get the Department and the contractual and operational team in the Department working together with the supplier on the facts and how to improve the performance, it can be done in that amount of time. I evaluate my team on how many of the contracts they are looking after they have been able to move to the next grading within that timeframe. Because we are always adding more and more contracts, it is hard to give you an exact percentage, but that is how we look at it.

Q731 Lee Rowley: I think you can see where we are going, so I would be really grateful if you could write to us with a series of yardsticks on how we should evaluate you and over what period, as you have offered. They would be numerical, not qualitative.

I am interested in a slight tension in what you have been saying. As an ex-project manager, I think that you have outlined some pretty basic 101 contract issues—that the suppliers don't know what they are doing, that we aren't clear what the contracts are, that we haven't got the dataset in order to do it. I understand and recognise that. But you are also saying that the vast majority of contracts are working well. That must mean that the vast majority of contracts are working well despite the fact that some of those 101 requirements aren't in place. How have we got to that place? Is it an effective use of your time to focus all this energy on trying to improve the rest?

John Manzoni: Let me try to help clarify. There are lots of different sorts of contracts, as you know. If you are just doing a basic FM, that might be a very different proposition from constructing a complex outsourcing activity. It is the latter bucket of activities that are most of the ones that hit the headlines, where the baseline is harder and where we are trying to use the market to innovate and to create an outcome that wasn't perhaps going on before. That is where we need to do the work on the baselining, where we need to do more work upfront and where I think we will end up saying that we need to pilot this. You are never going to price that risk right if nobody has done it before. Once you price it, then you are a bit constrained about how you can change it. I think those are the ones where we need the baselining work. Some of those other areas of contracting are more simple and aren't subject to the same complexities of baselining and data and such things.



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Q732 Lee Rowley: There is a relationship and a correlation between what people have told us in terms of complexity and problematic contracts, but it is not totally correlated. What confidence do you have that the contracts that are green at the moment, or that haven't really come across your desk because they haven't been particularly problematic or high profile, have been structured properly and are actually doing the things that you describe as contracts 101? Or is it just serendipitous that they haven't gone pop yet like the other ones have?

Coleen Andrews: We do spend a lot of time on that other group of contracts as well, because we can always improve services. If the service being delivered is consistent with what might happen in the private sector, so pension administration or something like that, we are always looking to see what the private sector is doing in that space and whether we can be doing it better here—are we doing it here and are we paying the right price for it? We are even looking at basic things such as mobile phone charges—do we have consistency across the Government in what we are paying and how do we improve value for money in those types of contracts? We do spend a lot of time on that as well.

Q733 Lee Rowley: On the basis of that lot of time that you have spent, what is your evaluation of the rest of the estate of contracts: excellent, good, average, mediocre, real problems? Choose one.

Coleen Andrews: Of the ones that are working well?

Lee Rowley: I want to know whether we have an underlying problem.

Coleen Andrews: I would say average, but we are moving towards—

Q734 Lee Rowley: So it is more by luck than judgment that they are not creating problems as well.

John Manzoni: They are easier to price. There is a market out there. The chances of them being better are higher from the get-go.

Gareth Rhys Williams: It is also true that it is the problematic difficult ones that end up on Coleen's desk. As things go wrong, we now hear about them very quickly because we are talking with the commercial directors and their teams every day, so those ones pop up and, depending on the size, land on Coleen's desk. I think we should take some comfort from that. As I said when we started, what is different from a few years ago is that vendors now suggest that they are happy to publicly share KPIs, which tells you how much those KPIs have improved. You can't wind the clock back, but I very much doubt that you would have had that response two or three years ago.

Q735 Lee Rowley: On the complex point that you made, if you divide your contracts into complex and non-complex, what proportion of each of those buckets would you expect to have problems over the life cycle of the contracts? What proportion should we reasonably expect you or others to come and tell us that there are issues with?



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John Manzoni: For the complex ones, they tend to be first-of-a-kind, so it is actually rather hard to judge. Going forward, you should certainly expect fewer of them going wrong than today. You should expect that because we need to change the way we do those. We need to pilot them and we need to run them in dual-mode and so on.

Q736 **Lee Rowley:** If you take away the work you are doing, which sounds very impressive and as though you are getting a handle on some of these issues, what proportion of complex contracts should I expect to see in front of the Committee over a five-year cycle? There is no point in us sitting here and telling you to fix it and expecting 100% of them to be fine. That is not how real life works. Based on your combined half a century's or century's worth of knowledge and experience in this, what proportion of complex and non-complex contracts should I still expect to see in this Committee, both historically and after you have done all your work?

John Manzoni: Something like 20% will probably go wrong.

Chair: That keeps us busy.

John Manzoni: It will keep you busy enough. It is a pleasure to be here.

Coleen Andrews: I would not say that non-complex is that high. You can put a lot of large IT contracts into complex. You can go anywhere in the private sector and find that rate of failure as well.

Q737 **Lee Rowley:** Is it at 20% at the moment, or is it higher?

John Manzoni: It is probably higher now. It depends how you define complex and where you draw the line. It is higher because, certainly in the ones we are having difficulty with, usually it is the fact that the pricing or the structure or something else was not right, and that we should have done more.

Q738 **Lee Rowley:** I am grateful that you are willing to suggest numbers, but the challenge I have with you suggesting numbers that you are obviously thinking of as we are in Committee means that this probably hasn't been thought through or written down previously. How can we have confidence that you have a full view of your purview of what is going on here and where things are heading, in terms of improvement? I am still not quite sure how you are evidentially working through and evidencing the statements that you made at the beginning.

Gareth Rhys Williams: I would say two things. Of the 100 or so complex contracts that Coleen is looking at, if we have more strategic vendors that will maybe go up to 200 contracts. That is on a base of, I am guessing, 20,000 contracts, so it is a very pointy pyramid that we are dealing with here.

Some of those contracts—although I would not say that they are difficult by design—are not simple things. The analogy with IT projects is probably quite a good one, even though many of them are service contracts; the public and private sectors frequently make big mistakes on IT projects.



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How do we get better at that? Simultaneously as we get better, I am absolutely certain that the chief information officers in both the private and public sectors will push the boundaries further, so although we may still have a 20% failure rate, we will achieve much more because the technology will have moved on and so on.

Q739 Lee Rowley: The environment is dynamic. I get that. However, we still have to have things in the ground to be able to evaluate you on. I will just ask one final question. What has come across your respective desks that you have looked at and thought, "This should never have been outsourced"?

Chair: Be honest—this is the moment for honesty. We could probably draw up a list ourselves but it will be interesting to hear what you think.

Gareth Rhys Williams: All right—we could compare. It is not for us to decide what gets outsourced and what doesn't—at some level, that is a political discussion—but we are getting better at doing those complex ones. There are techniques that we are learning, on some of which we have learned quite a bloody—

Q740 Chair: Perhaps I'll put it another way. We have looked at CRCs quite a lot. If you were looking at a contract like that now—perhaps take another one, an abstract one. If you felt it was complicated and was going to be very difficult to implement, would you give strong advice to Ministers—and if so, which Ministers, given that you are in the Cabinet Office and the Minister in the Department would be the one who would be driving it through—to say, "This is really going to be very complex and may not work, Minister"? Mr Manzoni, I am sure you are robust enough to tell them, but would they listen? How would you get that message through?

John Manzoni: There are some contracts, and we all know them, that are problematic, and it is usually, as I have said, because it is de novo and we have not understood the risk and the pricing of that risk, and nor has the private sector, and especially if one is in a world where—I think we are building back out of that world, but it was where we were, which was basically companies competing just to win a contract. The civil service can't have a conversation with a Minister to say, "By the way, you can't do that," without the competence inside the civil service to have some experience to say, "By the way, that looks really hard." Actually, we are having those conversations increasingly, and that is our role—to say, "Of course I understand what you want to try to achieve, but here's how we would advise you to achieve it." And this is why that is so important: the only way that conversation can go well is if the person saying it really does know, from experience—

Chair: And if the Minister has not already announced it—

John Manzoni: That is certainly true, too.

Chair: Which happens rather often.



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John Manzoni: And there is a lot of stuff to do there, always. But those conversations are beginning to happen, because we have a more informed point of view about where we could do those better. In the end, if a Minister wants to do something, we should not be ashamed to say, "Actually, just write to me and tell me that is what you want to do, because I am telling you that is not what I think you should do."

Q741 **Chair:** But ministerial directions are used very infrequently.

John Manzoni: They are used infrequently, but there was one relatively recently, as we know, right?

Chair: On T-levels, yes.

John Manzoni: And I think that should be the normal course of events: "I don't think we could do it that way, so if that's what you want to do, just write to me and tell me that's what you want to do and that'll be fine. In the end, it is your decision." Increasingly, those conversations can and should take place, but they can only take place from an informed perspective from the civil service.

Chair: I should just warn everybody that we are expecting votes at a quarter to 4, and unfortunately—well, not unfortunately; that's democracy—we will probably have three votes. You will get an extended comfort break. I am sorry about the pause, but that is just the way democracy goes.

Q742 **Anne Marie Morris:** Indeed it does. Mr Manzoni, Mr Rowley has challenged you with regard to KPIs and a lot of numerical measures and statistics. Clearly, any contract is about not just the cost, but the quality. I hear what is said about the datasets, but how are you actually evaluating, when you are looking at potential suppliers for a particular contract, whether the quality you need is there and they are not, as you said, just bunging in a cheap price on the basis that once they get the contract they can renegotiate it?

John Manzoni: A lot of structures are in place, and it is not obvious that they have all been used intelligently forever, but I think we are getting better. The basis on which contracts are awarded is: the most economically advantageous contract. Now, there is a lot in "economically advantageous"; it is not only price. In fact, many of them are, at the simplest level, a quality and price judgment.

We have a whole series of structures to make sure; we have a whole business case process—a strategic outline business case, an outline business case and a full business case—which is supposed to allow the interrogation of alternatives. We have the Green Book, which does various, different cases. We have "Managing public money". We have the commercial standards. So there are a lot of mechanisms and scaffolding to try to militate against cheap wins.

Q743 **Anne Marie Morris:** But the challenge is that that is all about process. Forgive me, but process does not generally give you quality; it is just a

system tick box.

John Manzoni: It does when it is mixed with experience and judgment.

Q744 **Anne Marie Morris:** Then what are the 10 quality questions that you would have to be satisfied had been met by any supplier?

John Manzoni: There are various questions. As it happens, the IfG did 10 questions about how to structure the contracts and such things. I cannot think of them off the top of my head. In other words, we have the scaffolding, but what we have to do is populate that scaffolding with intelligent judgment—the 10 questions or whatever it is—and our contract standards are an attempt at getting that, as are our supplier code of conduct and other things.

Gareth Rhys Williams: It is a very good question. I think it is not so much about the quality of a supplier as the quality scores being evidence on a contract-by-contract basis, so the quality scores that we might ask for in a contract related to prisons will be completely different from the quality criteria in a schools contract. That is one thing. The second thing to say—

Q745 **Anne Marie Morris:** Are there not some basic things about the quality of the business that you are trading or trying to contract with that are immutable?

Gareth Rhys Williams: We have financial tests—are they capable of delivering this, and will they be around for the period of the contract?—but the quality scores when awarding a contract are quality aspects that we want buried within the contract. To take a silly example, pencils: yes, there is the price of the pencil, but do we want them this long or that wide, do we want the lead not to break—I am making this up, but there are quality aspects to the pencil

Q746 **Anne Marie Morris:** That is about the quality of the pencil; it is no test to support the person who is going to make that pencil. How do you go about looking at the people?

Gareth Rhys Williams: Interestingly enough, we had one the other day, and I have brought this along. The DIO let a contract the other day in Clyde, where they used behavioural evaluation of the vendor base. They had set the contract up in such a way that they had rigorous testing and scoring of that, which they could then use towards the contract—as well as price and a whole lot of other factors. We have used that as an example through the commercial function a couple of weeks' ago, because most people would say, "Gosh, how the contractor behaves is a very difficult thing to measure," but it is crucial to getting a good contract outcome, so here are some colleagues who have now done it.

They also got the contract awarded with no disputes. The problem with quality criteria in a contract is that you need to specify how you then evaluate it. I cannot think of a contract in which price is the dominant factor and more than half of the weighting. There will usually be, say, three quality factors and price, 25% each. But if we don't define those



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quality factors well enough, or precisely enough, and if we only allow ourselves to score them in a very vague way, then each vendor will score 20 out of 25, so they are all scoring 60 going into the price, then price becomes the dominant factor, so price determines it. So what we need to do—this is a journey—is to get better at precise-ing how we evaluate those quality factors and then how we score them.

Q747 Anne Marie Morris: What do you do now, and how do you see yourself improving them? If 50% is about cost and 50% is about quality, you must be able to tell me what at least one of those quality tests is.

Gareth Rhys Williams: It depends completely on what the contract is.

Q748 Anne Marie Morris: I suggest that every contract has people. Are you telling me that there is absolutely nothing in the way you judge your supplier in a particular context? Is there nothing that asks the question about the quality, qualifications, capability—with some evidence—when you are meeting some these core individuals who are actually going to deliver it?

Gareth Rhys Williams: If we are building some railways, we might want lots of engineers, but they would be less relevant for a schools catering contract.

Q749 Anne Marie Morris: But you still want to see something about the people, don't you?

Chair: Seared into some of our memories is the Justice contract for translators. There was an assumption that they were just a commodity that you can just buy off the shelf, which is far from the truth. There is a very strong quality element. Now you are saying that that couldn't happen, because you would have done some assessment about whether they were the right people.

Gareth Rhys Williams: With quality of translators, you would want to see qualifications in languages, in university-level languages or experience of x years working as a translator in a similar environment, but that would not be a relevant thing for building electrification for Network Rail. So the quality criteria will be different from one contract to another.

Q750 Anne Marie Morris: But there will need to be some quality criteria.

Gareth Rhys Williams: Yes.

Q751 Anne Marie Morris: What about the quality, the social contribution and the corporate governance of a business? Clearly, there are regulations and various codes under the Companies Act, and all the rest of it. How deeply do you go into that? After all, as a Government, we are setting the standards that others should abide by. Are you double checking that the standards we set are being complied with by the people the Government is contracting with?



Coleen Andrews: Beyond the Social Value Act, every year we ask strategic suppliers about their payment practices, the percentage of business that goes to SMEs, whether they comply with the armed forces covenant, apprenticeships, volunteering, modern slavery, employment of ex-offenders, and the environment. We are adding GDPR and ethical standards this year. We look at the strategic supplier base and ask for detailed plans about what they have in each of those areas. We then take that information, anonymise it, give it back to them and show them how they are doing compared with all the rest of the suppliers across the board. They do have that information. Gender pay gap information is also in there.

Q752 **Anne Marie Morris:** But don't you need that before you even enter into a contract? I would like to think you get some information about the quality before you allow anybody even to tender for the contract.

Gareth Rhys Williams: Yes, we do, but once we have got it, we need to keep improving it. What Coleen is describing is a benchmarking methodology that we are using to improve those numbers. There is a whole range of data.

Q753 **Anne Marie Morris:** I am trying to get to the basic start point.

John Manzoni: One of the problems here is that, if you are not careful, you use the act of procurement as a Christmas tree on which to hang all sorts of specific requirements. By the way, all the things Coleen has talked about need to be scored, and that gets really complicated. Before I was here, I think the Government was there, and it worked back from there. There is a balance to be struck so we do not use the act of procurement with this whole Christmas tree of things. Otherwise, the contractor's capability to do the core business might be lost among the range of other things that we are now scoring.

Q754 **Anne Marie Morris:** Surely, Mr Manzoni, there are some things that are absolutely core. Do they comply with corporate governance rules and regulations? I don't just mean that they tick the box, and that it is in the report and accounts. Do they really comply? What about their social responsibility statement? Do they really do the things they say they do? When we get to the modern slavery requirement, do you dig to see whether, despite the fact that they have got a statement up there, they are actually doing something about it? Doesn't that seem like a precursor even to including somebody on your list of potential candidates?

John Manzoni: That is what this list does.

Coleen Andrews: Yes, and the Crown reps work with the suppliers to understand a lot of those issues and the programmes they have in place behind them. Certain contracting authorities will pull out some of these things as being more important. The Home Office, which obviously does a lot with modern slavery, is building out a separate questionnaire that it will use across Government to ensure that we are getting all those details and that everyone is complying on modern slavery—not just the strategic suppliers, but their supply chains, too. They have developed quite a



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lengthy questionnaire, and we are working on how we can consolidate it and make it consistent across Government so everyone can use those types of things.

Q755 Anne Marie Morris: Would you be kind enough to send us a copy of that questionnaire with a summary note about how it is used and the depth to which you inquire about the issue of slavery?

Coleen Andrews: Yes, but under EU procurement regulations, we have to treat every supplier in the same way. Certain companies—for example, SMEs that are based only in the UK—do not have the same risk of being exposed to modern slavery as large internationals.

Anne Marie Morris: You would be surprised.

Q756 Chair: We are going to have to move on, because we are expecting a vote at any moment. We will come back to this to take a slightly wider view of it. We are hoping to be half an hour or so voting, and then we will have another half an hour if you are quick in your answers and we are quick in our questions.

Earlier, Mr Manzoni, you said that not more than 50% of contracts are now on price, but Philip Chalmers of Atos said when he appeared before us, "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."

John Manzoni: Actually, Gareth said it is 50%. I don't know what the answer is. I don't know whether we have that. I don't know whether it is 50% or 60%.

Q757 Chair: Who is right, Mr Williams?

Gareth Rhys Williams: I'm not saying it is wrong. I think it would very much depend on what the sector is. IT services would be one thing—

Q758 Chair: So it is not just 50%. You were talking about an average, were you?

Gareth Rhys Williams: He will be talking about his business, I suspect.

Q759 Chair: That was the scoring on the contract he was bidding for—60% on price. You said not more than 50%.

Gareth Rhys Williams: Yes, but he is coming from one particular sector. Depending on what the sector is, you will get different views.

Q760 Chair: That's what I was asking. You were talking about an average across the piece.

Gareth Rhys Williams: Yes.

Sitting suspended for a Division in the House.

On resuming—

Q761 Chair: Welcome back. Following the interruption for a vote, we are back



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to discussing strategic suppliers' relationship with the Government. Just to remind people, our witnesses, from my left to right, are Coleen Andrews, who is the director for markets and suppliers at the Cabinet Office; John Manzoni, the chief executive of the civil service and permanent secretary at the Cabinet Office; and Gareth Rhys Williams, the Government chief commercial officer.

We have obviously had some discussion about the detail of how you measure and monitor contracts, but one of the things that partly kicked off this hearing is whether the market for suppliers is healthy. We have seen serious contraction by some suppliers in recent months, including since the collapse of Carillion. Interestingly, we have seen quite a number of new CEOs as suppliers go through their cleansing process. Ms Andrews, from your perspective, do you think the market is healthy? Are there enough bidders for proper competitive tension in the market that the Government pursues in this area?

Coleen Andrews: Over time, in certain markets we have had enough suppliers. We have had more than enough suppliers in IT, for example. Generally, across the board, we have quite a few strategic suppliers. We have all the usual suspects in facilities management. There is going to be a new facilities management framework in CCS, which will have more suppliers on it than it has in the past, and there is a lot more interest in it. But it is obvious from the evidence that has been presented to you that the suppliers that do Government-only services, with their new management teams, are taking a slightly different approach to how they look at Government work. They have a different risk perspective now.

Q762 **Chair:** Which areas are you worried about? We have a list, but in which areas is the number of suppliers contracting to a point where it is worrying you or making you nervous?

Coleen Andrews: I do not think it is contracting. We still have anywhere between two and five final bidders on the vast majority of the big contracts, but we are definitely seeing that a lot of the suppliers you have had in are much more careful about deciding what they bid on. There has been criticism in the past of several of our large suppliers for doing too many things and having their fingers in too many pies, and we have seen that contract a bit. Some of the suppliers that were in every single Department are now paring back a bit and saying, "We want to be good at this and we want to be good at that, and we don't need to do everything." That is actually healthy for Government, as long as we still have enough bidders on most contracts.

Q763 **Chair:** You said that you were getting two to five final bidders. One of the strategic suppliers, when we asked them what they thought was a healthy number, said fewer than three would be worrying for them. We have seen rail franchising getting down to two quite often. For BDUK—the broadband roll-out—there was effectively one; I think Fujitsu was encouraged to stay in to make it look more competitive. Quite a number have gone down to the wire with only one or two in the race. That suggests to us that it is not a healthy market and the Government is



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therefore not getting good options.

Coleen Andrews: I think what we do on our side as far as pre-market engagement and getting procurement right is concerned can solve that problem. If bidders think the contract is attractive, we will have enough bidders. We need to be better at doing more pre-market engagement, at listening more to the market about what their concerns are and at the way we form the procurement process, the Ts and Cs and everything else, and we will have enough bidders.

Q764 **Chair:** With pre-market engagement, how do you go about not having too cosy a relationship? Some people might say it is already quite a cosy relationship. There has been an inertia in the civil service about that pre-market engagement, for fear of being seen to have a favourite company or give an advantage to any company. How would you go about that?

Coleen Andrews: I think a lot of the Departments are getting much better, in the last few years, at holding general market days where they may have over 100 suppliers come in to look at the overall strategy across that whole Department, of what they might be buying over the next several years, as well as individual market days on specific procurements where there is a framework in CCS or something that is specific to a Department. I think some of our key suppliers are not bidding on as many things as they used to bid on, but we are seeing some new entrants that might not be the standard entrants we have seen in the past. We have some new international players coming in, looking to do more Government work, and we are trying to get more SMEs and social enterprises in as well. So we are monitoring, now, how many bidders there are in some of the big contracts. In the last 12 months, on the cases that we have seen at FBC, we have had just over 90% that have two or more bidders on them.

Q765 **Chair:** Two or more: do you know how many have had three or more?

Coleen Andrews: If I can do the math, quickly—80%.

Q766 **Chair:** You talk about SMEs and social enterprises. One of the things we heard from suppliers was they felt that they were an enabler, really, for those small and medium enterprises. Do you agree with their perspective, or are you finding it now, through the new mechanisms you have got in place, easier to contract with, particularly, the larger SMEs directly? They were very clear that they had a role to play, brokering it between you and them, and making life easier. Of course, they would present it in that way, but I was just interested in your perspective.

Coleen Andrews: I think in the Government-only services, on some of these large contracts, it is very complicated for a big company to do; it would be very complicated for the civil service to do; and it would be really complicated for an SME to do. So I think, in some of those, the larger companies acting as an umbrella, an integrator of services, is a slightly better approach; but on a lot of the other services we buy—for example, in technology—we have had a huge increase in the number of SMEs that we are doing work with. We just need to find better mechanisms across the

board of how we get more SMEs involved. As the market around Government-only services matures and we get better at doing this, we should be able to break down contracts into more manageable pieces, where we will attract more SMEs.

Gareth Rhys Williams: To add to what Coleen was saying, we have recently announced that where a supplier to us is then letting a subcontract, if that subcontract is more than £5 million, that has to be on Contracts Finder. So it has to be advertised more widely. Of course, does that mean that they are broadening their base? Not necessarily, but at least it is forcing them to advertise more broadly and make those contracts more available. So I think it is not an either/or: do we buy more from SMEs, or do our primes? We need to do both. We need to make it easier for us to contract directly with SMEs where that is appropriate. That goes back to what I was saying before the break about whether we let single large contracts or multiple small contracts: that in part is related to our resource. We need to do that, and we need to make ourselves easier to do business with, but we also need to encourage—force, in the case of this advertising point—our primes to deal more with SMEs.

Q767 Chair: One of the other concerns we have had, and we have pushed our suppliers on, is under-bidding, where margins, particularly in some areas—this is one of the things that led to Carillion's problems, among a number of factors—have been so low that there is no capacity, no resilience. We talked a bit about price earlier. How do you really evaluate, and make sure that Departments are evaluating under-bidding? If it is too good a price to be true, how do you make sure that you call that out? We have seen some very unhealthy examples of this in the past.

John Manzoni: We have gone back, actually. Where there are multiple bids and one is a standout bid low, there is often another inquiry that goes back and says, "Are you sure?" I have seen some things come across my desk where people have gone back and checked.

Q768 Chair: Sorry, this is when the Department has—?

John Manzoni: The Department has gone back, with these guys, and said, "Actually, we're going to open this again, to make sure that this is priced right." If it's too good to be true, it's probably too good to be true. We are not afraid of doing that and that happens sometimes.

In some senses, some of the companies that you have seen were guilty of that in the past, and the capital markets have sort of sorted that out. That is what Coleen is reflecting. They are now saying, "Actually, we're not going to spread this so thin. We're not going to underbid. We're going to concentrate on some things that we really want to be good at and we're going to make better business." And I think that is both our responsibility and theirs.

Q769 Chair: We know that in the past—I mean, some of them have told me this, certainly in private—that they would go in low, know that they would lose a bit in the first couple of years, push for variation and make a mint out of Government over time. Everyone can see that pattern; none of you



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would deny that, I'm sure. So how can you be sure—even if there is a cleansing at the moment, because that is the mood after Carillion—that this is going to be the way forward?

Gareth Rhys Williams: That is exactly down to better contract management, because it is the contract manager who can say, or not say, "Well, that is a variation", or, "That is not a variation." I think we need to do better benchmarking of the bids: "How does this bid compare with the previous incumbent?" and "How does this bid compare with the should cost analysis, if it's more complicated?" Then, in life, we should hold the vendor to account to deliver what they said they were going to do, for the price that they said they were going to deliver it for.

There is a complication here. What we need to make sure is that the bid that we get is sustainable for the life of the contract. Now, it could well be that a vendor will bid at a marginal cost in order to take market share from one of their competitors. Well, as long as we believe that that's sustainable, that actually generates good value for the taxpayer, as long as the vendor delivers the service. So it is not as simple as, "Are they absolutely profitable at a certain level?"

There is a nuance in there, because at one level we want to get the best price for the quality—back to your colleague's point. We are not here to pay a higher price; we want to pay a fair and sustainable price.

Q770 **Chair:** But back in 2010, when austerity measures were obviously brought in, therefore driving down the cost from suppliers, surely Government also had—I'm not being soft on the suppliers; they chose to bid at very low margins, but Government did push the pace on that. Do you think the Government took their eye off the ball at that point on quality and pushed down price too far?

Gareth Rhys Williams: Where the 2010 generation contracts have run into trouble, it is particularly in the construction area. We have seen around the world—it is not just in the UK—that everyone was scrambling for business. Actually, the structures that were put in place then—perhaps we will come on to them in a minute—where Carillion particularly bid low on contracts, perhaps hoping on variations that they then didn't manage to pass through to us, the PFI structures that had been put in place actually protected the taxpayer in that instance.

It is very tricky. You would rightly haul us over the coals if bidders bid a low price, we volunteered to pay more and it then turns out that they are banking extra profit. So this is a fine judgment; we need them to be profitable, but not excessively so.

Coleen Andrews: The other thing I would add is that among our core strategic suppliers they have had significant changes on their side, with the new management teams coming in, about how they approve the bids that they put in on Government contracts. So now, with almost all of them, someone at board level—if not multiple board members—has to approve a bid that goes in on a contract. I think that has dramatically



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improved the quality of the bid, so centrally I don't think we see as many low bids any more.

Q771 Chair: Earlier, Mr Manzoni, you said that one of the successes is fixing bad contracts. Just going back to the community rehabilitation companies contract, which is a contract that was let, and many of the suppliers we spoke to said they didn't want to touch it with a barge pole, because it was complicated and—they felt—it was ill defined. It had to be renegotiated within an inch of how far it could get without re-letting it. I think there are some still challenges there. That is a contract that's very hard to fix, once it has been let. So can you give us some examples of bad contracts that you have fixed and say how you got around it legally without having to retender?

John Manzoni: I think there are a number. I can think of one where we have gone back. In some cases, we do not fix it in one shot either; it takes a couple of goes. The rehabilitation contract is better than it was, but is still under the microscope. I think the asylum contract is better than it was, and is still under a microscope.

In order to do that, we have to be a bit smart about how we do it and understand the risk, the transfer of risk, and the pricing of that. These are all new, one-off services that we are buying from the marketplace. Sometimes there are genuine tensions about whether there is enough rent in the chain, period, to do this activity. Is there enough money to do this activity? That is the judgment: is it the supplier that is inefficient, or is it the fact that we are just not putting enough money into that contract? Those are judgments to be made. The two I have just described still merit examination frankly.

Q772 Chair: Fixing bad contracts in the past has meant basically renegotiation, and the contractor has got a lot more money as a result. Is that not one of the biggest dangers of getting it wrong in the first place and trying to renegotiate? There is a point at which you are just throwing more good taxpayers' money after bad.

John Manzoni: That is a judgment, isn't it? Is it "after bad", or have we just mispriced it?

Chair: Well, yes, there is always a judgment.

Gareth Rhys Williams: I was going to say, the question is whether it is "good after bad", or whether you are just pricing it to what it should have been anyway. Within a contract there are several reasons why things might go wrong. One reason might well be that we, as Government, have not delivered some preconditions that we should have. There are plenty of examples that could be cited to us, so we need to get better at that. Have we delivered our preconditions?

The second thing we might have got wrong is the volumes. I am sure you will have heard from Rupert Soames about the asylum seeker contracts. Volumes there are in a completely different place from what was expected at the time that that contract was let, for all sorts of reasons. It was not

deliberately done; it just turned out that many more people need that service than was expected.

Within the procurement regulations we are only allowed to vary a certain amount, left and right, of the core volumes that were bid. An example to think about, with the benefit of hindsight and in future, is that we should have let that with a tiered pricing, dependent on volume, rather than this price for that volume. We should have opened our eyes wider to anticipate and therefore been allowed to auto-vary within a contract. That would have solved that problem.

Then there are examples where we have just plain got it wrong. In those cases it may well be that the best way out is to terminate the contract and re-let it. That is much more complicated in a public environment than in a private environment where you can just say, "The contract's over. Here's the termination payment, and we're going to re-let it." It is a mixture of those three strands.

Q773 Chair: One of the other things is about accountability. We have seen a lot of brand new teams in the suppliers we have talked to. They are going through a cleansing with a new CEO. They have done good pitches to their boards and shareholders as they sat here in front of us, but ultimately people lost their jobs, and the companies, in some cases, have had to pay a lot of money into contracts that are failing.

In the civil service, if a commercial stream person is letting the contract and it goes badly wrong—say it was badly framed in the first place—do you feel that there is enough accountability? We do not see people lose their jobs. I am not saying that people losing their jobs is the only sanction, but we do not ever really see that anyone is held to account for something they have drawn up.

John Manzoni: The structures of accountability inside the civil service are complicated because people move around a lot, which we are trying to change. That is a long-term change. With the contracts we are talking about now, which are usually the ones that are subsequently found to have gone bad for one reason or another, it is quite hard actually. As I say, these are usually de novo. It is all a judgment, so it would be quite hard to say, "Well, you got the pricing of that risk wrong, and therefore—" We rely on the market to price against each other because that is a good sifting and sorting mechanism. If that is not working, we have a problem.

Q774 Chair: But companies will bid even for bad contracts, as we have seen. They will try it.

John Manzoni: I know. They were bidding; I think they will be less inclined to bid now because of that cleansing process.

Q775 Chair: That's for now, and then it will go cyclically. The danger is, being cynical—

John Manzoni: It will go in cycles. We rely on the competition process. If that competition process is not working properly, and in some areas it was not, for the reasons we have just gone over, it will be quite hard for us to



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make judgments. It will be quite hard to hold people accountable for something brand new, for getting the pricing right in the first instance. We have to be careful with that. Notwithstanding that, do I think accountability should be shared?

Q776 **Chair:** It is not always pricing, though; it is about deliverability. The CRC is a case in point. Pricing comes into it, but it is actually about the complexity of delivering something that is very people-focused.

John Manzoni: That was a particularly complex construct that happened to have been driven quite fast, quite hard.

Q777 **Chair:** There was no ministerial direction on that one, was there?

John Manzoni: I can't remember. I doubt it.

Q778 **Chair:** No, there was not. Do you think that would have been a good idea?

John Manzoni: Do I think there perhaps should have been? Probably.

Chair: Thank you for the candour.

Gareth Rhys Williams: I was just going to add that there are different examples of bad. Most of the people who have talked to you in the weeks running up to this, to your "cosy" point, would have said, "Well, we are losing a lot of money here." In that sense, the public purse has been protected and vendors have lost money. Has delivery suffered? That would be a failing by the civil servants. The worst case is where we have non-delivery and overpayment. That is something that we should not be doing. Delivery, but vendors losing money? That is tricky—we are trying to buy things at the least cost for the specified delivery. Do you see what I mean? There are different forms of bad here.

Q779 **Bim Afolami:** I suspect this question is directed at Mr Manzoni, but either of you may chip in if you are so inclined. Do you think the Government need to take a more active role in managing this market?

John Manzoni: This market being?

Q780 **Bim Afolami:** The market of suppliers, whether they be small—we have talked about SMEs—or big. It just looks and feels a bit as if the Government are saying, "Well, the market is doing this, the market is doing that," but you create the market in this context.

John Manzoni: Let's separate out the markets. In an IT world, we can rely on price competition on many, many things and, as Coleen has said, we have been very successful in increasing the SMEs and in reducing the price and the cost. In that bit of the market, fine, we can rely on the competition. At the other end of the scale, where we are doing complex, Government-only services, we have to be careful because there is a line we cannot cross, but on the other hand we should be more intelligently structuring our procurement so that it is doable for the market. We ought to be intelligently in dialogue with all the suppliers to ensure that we are putting the risk in the right place and not asking them to shoulder too



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much burden, and all those things. I think the answer is that yes, we should be more involved and thoughtful and intelligent about how we structure things at the very complex end of the spectrum.

Q781 Bim Afolami: On that precise point, I think it was Capita who said to us that they would like to see SMEs brought in almost under them, so Capita would act as the aggregators or integrators. In terms of managing that market, surely it is up to Government to decide who does that and whether Government contracts directly? You have said we should be, but what have Government been doing? Have Government made a decision?

John Manzoni: On the SME bit?

Q782 Bim Afolami: I know the Government want more SMEs to receive more Government procurement. The broader point is that you say we should think more intelligently, but that is all happening—it is just happening from the big strategic suppliers. They are doing a lot of that. Do you not think that the Government should be playing a more active role?

John Manzoni: I have several thoughts on this. The first is, if you look today at the proportion of SMEs that are used by our main tier 1 strategic suppliers, that is far higher than we have. As Coleen has said, it is partly that they are better at this than we are. In some cases, they are better aggregators of that than we might be. So if there is a bit of the market where we want more SMEs, what we have done is said that we need to think about our tier 1 suppliers.

Gareth gave an example of where we say, “We want you to be more transparent about your opportunities, so that SMEs can come in. We want to know what your SME percentage is and we want you to do prompt payment.” We have got a sort of package of things with our tier 1 suppliers, because we believe that that will actually create more economic activity for SMEs in the marketplace than if we were to try to do that ourselves.

If we were to try to do that ourselves, it would increase our overheads; we would have to have more people to do it. So we have judged in that case that that is the right thing to do. If you like, that is managing that market a bit; we are encouraging the tier 1 suppliers to work, be transparent and help us get the SME content up. That is an example.

In other areas, we are in dialogue with the big suppliers. We are saying, “We want to know what you are going to concentrate on. We want to know where you are going to be best in class. We don’t want you spread across everything. We want to understand where you want to compete and where you don’t want to compete.” That is also encouraging a better, healthier supply market for us.

Gareth Rhys Williams: It is a very good question. There are a number of trade-offs. The more we go for a unitary provider right across the country, the easier it is to get consistency of service right across the country. In some procurements, that is really important, and that is relatively cheap for us to do—we need fewer civil servants to do that. The more we split



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things up, the less risk there is if any one of those providers then has a problem, but it is then very much harder to get consistency of delivery across the country. If that is not important, or if it is easy to measure, that is less of an issue.

The other benefit we would see about splitting things up—which is resource dependent, going back to Sir Geoffrey's point earlier—is that where we have an incumbent on a second generation, if that contract is a very large proportion of that incumbent's business, that provokes them to bid in a not illogical way but a potentially illogical way for us: they will be desperate to keep that and may therefore bid at a price that then isn't sustainable from a delivery point of view. If we are able to have the resources, it is better to split things up geographically or in some other way and to move to smaller contracts that allow us to contract directly with SMEs. It is a mixture of different issues each time.

Chair: We will move on to some issues around Carillion for a moment before coming back to a few last questions. Ms Flint.

Q783 **Caroline Flint:** I apologise for being late to the Committee this afternoon. There are a few things going on. Mr Manzoni, if Carillion did not qualify for your highest risk rating, how bad do things have to get before you apply that?

John Manzoni: It did qualify for the highest risk rating at the end. We made a conscious decision not to formally declare it, partly because one of the underlying intents of the risk rating is a predictor of what is going on. In this case, we knew what was going on and we had maximum attention on Carillion from July. We actually concluded that its becoming public that it had happened would precipitate exactly what we were trying to avoid and therefore that was the judgment that we took.

Q784 **Caroline Flint:** My question really was—it was towards the end, and then I will get on to a question about some of the special pleading that Carillion asked for—how bad do things have to get? Can you give some practical examples of what that means so we can understand it?

Chair: When is high risk ever actually used?

John Manzoni: Is it ever used?

Coleen Andrews: Rarely.

John Manzoni: Rarely, because the chance of its precipitating exactly what we want to avoid is—and that is why it is a very sensitive subject. You have had various conversations in this Committee, and share prices have moved as a result, so we have to be very careful.

Q785 **Caroline Flint:** But you mentioned yourself, Mr Manzoni, that there was a concern about financial collapse, and in fact, according to paragraph 5 of the NAO Report, when "the Cabinet Office wrote to Carillion to say that it proposed rating Carillion as its highest risk category, 'high risk'. Carillion replied that the Cabinet Office already had access to the financial



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information required by this rating, and the rating would risk precipitating its financial collapse. The Cabinet Office accepted these arguments". Does that not set a precedent for other strategic suppliers to make special pleading in terms of not revealing what is really going on?

John Manzoni: We can pursue this line of inquiry. What I will say to you is that I believe we knew a great deal about the company at the time that letter was written and replied to. There was no other information. We had insiders inside the company, so they knew all about what was going on. In this instance, there was no more that we could or should have known about the status of that company.

There were regular meetings, as you know. There were cash-flow forecasts being received, as you know. Had we formally said, "Okay, you are at the highest risk rating", the chances of that actually precipitating the action that we were trying to avoid were quite high, so we judged that it was the right decision not to—and by the way, I think that was the right decision.

Q786 **Caroline Flint:** Let us step back a bit then, because the Government carried on awarding contracts to Carillion after the July profits warning.

John Manzoni: Only two.

Caroline Flint: According to the NAO Report paragraph 3.10, "Carillion announced that it had won four central government contracts and three variations after the 10 July profit warning, totalling around £1.9 billion, including £1.3 billion of HS2 contracts".

John Manzoni: The only new ones that were awarded were two. They were the HS2 contracts. All the rest were actually awarded prior. The two new ones were the HS2 contracts.

Q787 **Caroline Flint:** I raise that because having looked at some of the other information concerning strategic suppliers, there is a bit of a pattern, to be honest. Even when there are red RAG ratings, things do not seem to be going well and there are financial concerns and profit warnings, contracts keep on getting awarded and extensions given.

I know some of the extensions are linked in to seven years, where you do three and then go from there, so they are not quite the same as an extension we might normally think of, but even so, there seems to be a pattern. Should we not be worried about that pattern of continuing to award or even extend contracts?

John Manzoni: I don't think you should be worried. I will let Gareth come in in a minute. Government has to play very carefully here. These awards, made or not to particular companies, can precipitate the demise, success or continuation of these companies. Those judgments have to be made all the time at every level.

Q788 **Chair:** So you are caught in a vortex, really. If you pull out, you are sending signals to the market that the company is in trouble, or they are they too big to fail.



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John Manzoni: Clearly not—we allowed one of our biggest suppliers to fail, so clearly we are not in a cosy relationship. That was a deliberate act. We did not support that company and it failed. That is the subject of this—

Q789 **Chair:** Yes, but it got to a point where its own cash situation was so bad that it failed, but there can be—and remember, we have seen some information showing that there are—contractors that have several contracts across Government, where plates are spinning and some are nearly about to fall at any one time, and yet they keep inching through the system with red RAG ratings for quite a long time: not quite failing. Some are eventually rescued, but some stay red for a very long time. Are they just too big to fail? You are almost admitting that in front of us.

John Manzoni: No, I don't think so. They are obviously not too big to fail, because one of the biggest just failed.

Q790 **Chair:** It could not happen with everyone, could it?

John Manzoni: No, it could not happen with everybody, but it might happen to everybody if, from the moment they went red, we did not award them any more contracts. We might suddenly—

Q791 **Caroline Flint:** We know that for Carillion, there was no Crown representative for four months. At the July profit warning—I just mentioned the Government contracts being awarded—did the bodies who had awarded the contracts seek your advice? What did you tell the different organisations that the contracts came under?

Gareth Rhys Williams: Let us split the contracts down. I have my favourite chart on this. Two of the contracts were awarded before the profit warning, but Carillion chose only to announce them afterwards, which is their call. Three of the contracts were extensions that were originally let in February 2014.

We should put it into context. You mentioned the £1.9 billion. Between the time of the profit warning and the time that Carillion went bust, across all seven contracts we spent less than £50 million with them. That is still £50 million—there is a table in the NAO Report on this—and it is for goods and services completed and delivered properly. The number we are playing for here is £50 million, not £1.9 billion.

The two contracts that were let that were fresh were the two HS2 contracts, which were large contracts as part of a consortia. Because they were large, they were bid as part of a consortia. The contracts were let within two or three days of that first profit warning. They were let by Network Rail.

The Department for Transport and Network Rail called in those consortia members and said to the other two members of the consortia, "With what you now know of your consortia partner Carillion, are you still happy to stand jointly and severally liable for those contracts?" They said yes, and the evidence is that within hours—I think it was within 20 minutes for one of them—of Carillion going bust, the JV partners stepped in. The mechanism that the DfT and Network Rail put in place really worked. The



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financial tests they used for judging those contracts were reassessed after the information came out from the profit warning. I think what we did, did work.

Q792 **Caroline Flint:** I suppose you started planning—

Gareth Rhys Williams: Sorry: to be clear, it was HS2, not Network Rail. The extension of the contract was with Network Rail. Apologies.

Q793 **Caroline Flint:** The Cabinet Office's co-ordination of contingency planning in case of Carillion's failure began in mid-July. There clearly was information that was of concern to everybody. My understanding is that you did not have a complete list of Carillion's contracts with Government on 10 July last year. Why is that?

Gareth Rhys Williams: There is Government, and there is Government. We had a very good list of contracts within central Government, but the wider public sector ones are harder to get at. By the time the contingency planning was finished, we did have all those, because we had written out, and we had got those. Perhaps Coleen can follow up on that.

Hidden in that point is a complexity worth exposing. If central Government or a school let a contract to X—FlintCo—and you then let a contract with Carillion, there is no database we would have that would track that. There is some information, where we have a risk with a vendor, that can only come from talking with the vendor. That is why as soon as we had that profit warning, Coleen and her team started digging into it, asking the vendor, "Where have you got Government contracts?" That was to build the part of the database that we did not have, and which we would virtually never have.

Q794 **Caroline Flint:** What about the health service? How much did you know about what was happening there?

Coleen Andrews: As Gareth said, we had a great list of central Government contracts, and then we started very quickly working with DHSC and NHSI to look at the 13 PFI hospitals where Carillion was providing services. As Gareth mentioned, it is slightly trickier for us to get to that information, because Carillion had the contract with the private sector. The NHS trust then had the contract with the SPE, which then contracts to Carillion.

Carillion were as helpful as they could be in that regard. They gave us the list of contracts that they had that they thought would be of interest to us. That extends to all the local authorities, the schools and critical national infrastructure. Their contract with Heathrow was with a private organisation, but obviously we want to make sure Heathrow carries on running as well.

Q795 **Caroline Flint:** Let's just stick to where our public money, taxpayers' money, is being spent on whatever they are going through in terms of NHS trusts, local authorities or central Government contracts. I am interested in why we have not got a greater sense of what is going on within those different contracts where taxpayers' money is being used in



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one form or another.

Gareth Rhys Williams: The point is that it is taxpayers' money that is being spent with a private company that subcontracts stuff to Carillion.

Q796 **Caroline Flint:** But who is responsible for that taxpayers' money, Mr Rhys Williams? Yes, we are handing over taxpayers' money to a private company to do a job that is perhaps subcontracted to another private entity to do a job for the public service. Fundamentally it is a source of the money. Who is accountable for the source of that money at the end of the day?

John Manzoni: Ms Flint, it worked, didn't it? There has not been a single blip in public service as a result of Carillion's failure. The contingency planning was ready when Carillion failed. It was there.

Q797 **Caroline Flint:** But, Mr Manzoni, I accept and it is acknowledged by the NAO that yourselves and others did start acting from July 2017; I totally acknowledge that in terms of contingency planning. But there is a question about, when letters were sent to various bodies in the NHS and local government, how they needed to start preparing for a contingency option and why they were not actually told the reason for that. They were told to get planning, but they were not necessarily given the information about what the greatest risk was. That is the case, isn't it?

Gareth Rhys Williams: The issue there is that some of us were insiders and had information from the company. We were insiders in the sense that we were not allowed to trade the stock—

Q798 **Caroline Flint:** So what as an insider could you make use of?

Gareth Rhys Williams: Sorry, may I just finish? As for asking anyone within Government to do contingency planning when there are very few public servants who sit around twiddling their thumbs, contingency planning is an extra. It is perfectly true that the further away you get from Whitehall and outside of central Government into ALBs and into the world of the public sector, the heft of the Cabinet Office diminishes. So we needed to up the ante as fast as we could, but in some cases we were not able to say, "We have seen this company's cash-flow forecast and therefore you need to do this." We needed to say, "If you look into the public domain and you see what is in the newspapers, this is why we are upping the ante." Yes, we went through a series of escalations, working through our contacts—

Q799 **Caroline Flint:** How many?

Gareth Rhys Williams: We have a list of the number of emails that were sent out. Some units responded to that; some didn't. Those that didn't got a letter from their permanent secretary. That usually works, although that didn't work and we had to ask Ministers to get involved.

Q800 **Caroline Flint:** How many public bodies with Carillion contracts did not produce a contingency plan?

Coleen Andrews: There may have been a few in local government.

Q801 **Caroline Flint:** A few? Two?



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Coleen Andrews: It was very difficult to tell what the contracting arrangements were in some of the local authorities because sometimes contracts covered 90 schools, for example, so I cannot say there was a contingency plan for every single school. Throughout the process we were in constant contact with the contracting authorities through the best mechanism possible to make sure they were aware of even the publicly available information.

The 10 July profit warning was nothing short of being a phenomenal profit warning. For a company their size to make that sort of announcement of that sort of loss is not normal. So we were able to make sure that all the contracting authorities that we knew about had the same public information and were taking appropriate action.

Q802 **Caroline Flint:** Are you saying you don't know how many public bodies didn't produce a contingency plan, or are you saying you just do not have that information today and you could provide it to the Committee?

Coleen Andrews: I can provide it to the Committee later.

Chair: Thank you.

Q803 **Caroline Flint:** I understand a number of the contingency plans were uncoded. Is that acceptable?

Coleen Andrews: It is very difficult to cost a contingency plan sometimes. There are different types of contingency plans. Most contracts have basic business continuity contingency plans already in place. From the Cabinet Office perspective, we have to look at the cross-Government strategy on what a contingency plan would look like.

For example, if a company goes into administration, who will negotiate with the administrator on behalf of the Government to figure out the rates of what various Departments might pay on their contracts? Which contracts would the administrator not want to carry on running, for health and safety or cost reasons or whatever that might be?

As most contingency plans involve transferring the service to another provider, we have to make sure that not every Department has the same other supplier on the top of their list. We have to make sure that it is varied and that it goes across multiple suppliers. It is very difficult for them to say what that cost is until they know what the exact situation is.

Gareth Rhys Williams: May I add a couple of things? I think there are two things. One is about the depth of the contingency planning that we are talking about. Schools were sending us contingency plans that talked about the names of Carillion employees who had keys to lockers and how they had copied those keys. School employees had those spare keys, so that, if that Carillion employee did not turn up for work, they could still get into the locker or the fridge or whatever to be able to do school meals. We are talking about contingency planning at a pretty granular level; this is not some wafty item.

The second point is that, where a trust has contracted with a special purpose vehicle as part of a private finance initiative, that SPV has to



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deliver that service. We are paying for that service on a unitary charge. The SPV will not tell us the cost to it, but we don't actually care because the SPV has to deliver that service. Whether that cost is de minimis or huge, that is their problem. We shouldn't expect to be told those costs.

Q804 Caroline Flint: Mr Manzoni, what are the chances that the cost to the taxpayer of the Carillion collapse will be higher than £148 million?

John Manzoni: That is the best view right now. As you will recall, we originally estimated that it would be in the order of £150 million, and so far that has been a pretty good judgment. There is a range around that number—perhaps minus or plus 100—that all depends on the debt collection of the special manager and the official receiver and the propensity for some of the service receivers to pay the receiver and so on. All of that is a work in progress, and I think it may take quite a long time to play out. Our best view at the moment is that it will be in the order of £150 million.

Chair: That doesn't include people whose pension, if they get a pension, might get a haircut and who therefore might have to rely on benefits. There are knock-on cost shunts.

Q805 Caroline Flint: Are you monitoring wider costs to the pensions of supply chain staff and the additional costs to Departments for finding new contractors?

John Manzoni: We are monitoring the latter, not the former. We are not monitoring the potential wider pension costs.

Coleen Andrews: That will take some time. The pension plans are in an assessment period for two years.

Chair: We recognise that we will not have these figures next week, but will you be looking at that? It is actually also an important warning to private companies that run it to the wire that there is another cost to the taxpayer that the Government are aware of and that is adding to the tally.

Q806 Caroline Flint: Contingency planning started from July 2017 onwards. You moved from agreeing not to damage Carillion's standing in December to putting them into liquidation a month later. Why did you judge that Carillion could not be saved?

John Manzoni: As you know, there were a series of escalating meetings through the first two weeks of January. In the end, a combination of factors persuaded us that the Government should not step in to protect this company, which was as follows. The first was that its asks of the Government continuously changed and were continuously changing, which indicated to us that the situation inside the company was obviously continuously changing. The truth is that we were not sufficiently confident that the company had a stable and coherent long-term plan. It had asked us for a combination of help, one of which was a bridge of cash between the point at which we paid and, they said, April '18, which was a fundamental restructuring of their company.



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The second was help on tax payment terms. The third was that the Government would step into two or three of the PFIs—hospitals, in particular—which would have brought that back on to the balance sheet. The fourth was a series of other bits and pieces that they were asking for, and that added up to quite a lot of money.

First, we weren't confident about their long-term plan. Secondly, we weren't confident that the agreement in April could be reached, because it needed all of the existing lenders to be subordinate to the new lenders. They didn't want to do that, and the pension fund wasn't all that happy. A whole set of things had to happen, and for those reasons, in addition to the precedent, we concluded that this was not a company we should step in to help.

Q807 Caroline Flint: Finally—I have a couple of quick questions—I understand that all Carillion services will pass on to other providers by the end of June. Is that still on track?

John Manzoni: To the best of our knowledge.

Q808 Caroline Flint: Are you monitoring the number of suppliers and subcontractors that failed as a result of the Carillion collapse? There is not just an economic cost but a social cost, which the public need to understand.

John Manzoni: We are not monitoring that.

Q809 Caroline Flint: Would you be minded to?

John Manzoni: I think it would be rather hard to do that. On the other hand, the same services are taking place—

Q810 Chair: Sorry, it is not that hard to do. You have now got a very good picture of what Ms Andrews's team did with the different suppliers, although perhaps not to the very end.

John Manzoni: We don't know all the way down the value chain.

Q811 Chair: But because of the very fact of contingency planning, you have a fairly good idea. It may not be 100%, but you have a fairly good idea. There is a group of businesses that are meeting—

John Manzoni: There is a lot of support, as you know.

Q812 Chair: It wouldn't be difficult. I think Ms Flint is making a very important point. The Government has a very important role in understanding what the impact of this collapse has been on the wider economy.

Gareth Rhys Williams: BEIS set up a taskforce within a day or two to do two things. First, it provided liquidity to vendors, subcontractors and suppliers to Carillion who needed financial support. A short handful—20 or so—of sub-vendors have come for support. That is a much lower number than we feared. There have been two, three, four or five vendors who have gone bust and have been in the press. That has been really tragic and unfortunate, but that is a much lower number than it might have



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been. The third thing is the number of people who, when applying for benefits, have claimed that Carillion has been the cause.

Q813 Caroline Flint: Mr Rhys Williams, on one level it is all very well that in this meeting you have given us a précis and have caveated everything by saying, "It is lower than we thought; there are not as many as we thought," but doesn't it serve the public interest for us to have that laid out in more detail so that we can quantify what the impact was? Why can't that be done? Why can't what you just said be put together so that we can see in black and white what the negative downside has been, given that in many other areas contracts were rescued?

John Manzoni: One of the problems is that this is a supply chain. It isn't a simple vendor subcontracting to another vendor. There might be five people in the chain. It is almost impossible to see all the way down the supply chain. It is a private company subcontracting to a private company, subcontracting to a private company. We would have to have a map of the entire economy to understand the impact.

Q814 Caroline Flint: I think you should try. Regardless of acknowledging the efforts to ensure that, across this contracting chain, people are making contingency plans, it is costing the taxpayer £148 million. Civil servants across Whitehall and people in local government are spending time and energy focusing on this and not doing other things. There is a cost to that, too. I would suggest that you have come out of this by the skin of your teeth. It could have been a hell of a lot worse. Wouldn't you say that luck has played a part?

John Manzoni: No, I think it is hard work, actually. But you make a good point.

Chair: I think the NAO and Ms Flint do recognise that.

Q815 Caroline Flint: Do you agree that you were pretty much saved by the skin of your teeth?

John Manzoni: No, I think it was saved by lots of people working extremely hard, to be fair. There is a BEIS taskforce in place that looks at small businesses. Perhaps we can ask them to have a look to see what sort of information we could gather of their broader economic impact.

Q816 Caroline Flint: I have to say that I am disappointed with that answer. Throughout our hearing so far, I would ask myself, "Does Government get the market they deserve?" With this strategic supply model and all the questions that have been asked today, is that sufficient for us to be assured that the Government are a good body to oversee contracts and can they identify risk?

John Manzoni: We have spent the last two hours talking about it.

Caroline Flint: Yes, but if after those two hours your answer to a very basic question about how those areas in the supply chain affected is that you do not seem to think it is important, that gives me cause for concern.



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Q817 Chair: There are a couple of points that I want to mop up, with a couple of quick questions. First, the crown reps' length of service is about two years on average. Would it be better if they stayed longer? What are the risks of them coming into Government and then going back out into the private sector with all that knowledge that they take with them? I assume that can enhance their career options in the private sector. That is a reality of life, but how do you manage that?

Coleen Andrews: Most of them have a portfolio approach to their career at this stage. We value the other work that they do outside Government because it keeps them relevant, because they can keep bringing new ideas of what is happening in the private sector. We have had very few leave to go back fully into the private sector—perhaps two or three in the four years I have been here. We try to rotate them on to suppliers every two to three years, because every crown rep has a different background and a different skills set. We try to refresh the relationship.

Q818 Chair: Is that also an attempt to make sure there is not too cosy a relationship developing?

Coleen Andrews: Yes. Certain crown reps will look at certain areas more than others. If we mix up the model every now and again, we know we are covering more bases.

Q819 Chair: So you are not worried about the two years?

Coleen Andrews: No.

Q820 Chair: Earlier we touched on the relationship between the Cabinet Office and Departments. We know that there is still tension there. You have all this guidance; you have a professional cadre of commercial people, but as Mr Rhys Williams says, there is a long way still to go on that skills set—a lot of policy people doing a bit of contract management.

Gareth Rhys Williams: On contract management?

Chair: Yes. There are various strands that you are trying to improve—we have covered all this in the Committee. You have all that, but in the end, we have sat here with permanent secretaries who have basically said that they quite merrily do their own thing. We have seen examples of things where they have not taken the directive from the Cabinet Office. Are you failing on this front, or are you making any progress? How does it feel from your hot seat, Mr Manzoni?

John Manzoni: We have had this conversation in multiple contexts. We are absolutely making progress.

Q821 Chair: It matters particularly in this context because the strategic suppliers are across central Government. You can have a grip centrally, but if these things are going on in Departments, it gets quite difficult.

John Manzoni: Completely. I think we are making progress because it is common sense. We do not actually have the accountability and governance structure to formally make progress, because accounting



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officers are accountable to Parliament independently, through our structure of Government.

Q822 **Chair:** But there is also loyalty to the Department. Your career prospects as a civil servant are about impressing your permanent secretary.

John Manzoni: You are simply depressing me about my role. It is not easy—who said it was easy?

Q823 **Chair:** They can impress you or Mr Rhys Williams as much as they want, but that might make them persona non grata in the Department, because they are raising difficult questions and challenging policy.

John Manzoni: The serious point is that I think increasingly it is becoming clear that there is benefit to adhering to sets of standards, promulgated out of the Cabinet Office, if that is the commercial standards. I think it is increasingly becoming clear. We are using all sorts of different mechanisms to do it.

Ultimately, if an accounting officer chooses to ignore something that makes obvious sense, they can do that. But increasingly, I think that is not happening, in multiple ways. I am not discouraged by it, actually. The question is: can we, for instance, tweak some of the more established standards, such as the “Managing public money” standard? Can we think of ways to deploy the functional standards across our system?

Q824 **Chair:** I have to say, “Managing public money” has been quoted a lot more in this Committee in recent years than it was when I first joined the Committee.

John Manzoni: Yes, so I think there are mechanisms to use here.

Gareth Rhys Williams: I think you make an interesting point about career progression for civil servants. What we are building through the commercial function, the assessment centre that we have brought in and the recruiting standards that we have got, and the fact that that group of people are paid centrally out of the Cabinet Office, mean that actually their career is much more likely to follow a commercial function route than one to elsewhere in their Department. It is great if they follow a route within their Department, but there is as valid a route—perhaps more valid—a way of moving people from smaller Departments to bigger Departments, to build a cadre of people who have commercial experience.

Q825 **Chair:** This is a vision that you have that we probably share in the Committee, but it is not shared in Departments—

John Manzoni: It is coming—

Chair: People moving every two years, another policy job, a little bit of tinkering with a contract here or there, and then boom. How many permanent secretaries have project management experience or any financial qualification? There are just two proxies for anything—

John Manzoni: That is true, but you will notice that just recently we have launched something called Success Profiles. That has basically changed



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the competency framework in order to hire and promote individuals. There are underlying changes going on, both in how we promote and recruit and in how we develop careers. You haven't seen them yet, you can't see them yet, because they are structurally—

Q826 **Chair:** When will we see the first commercial stream permanent secretary? How long will that take? Because that will make—
[Interruption.] Mr Manzoni's is a slightly unusual position—

John Manzoni: Right now we are in year three of the commercial fast stream, so they will come out of that. I have a timeframe that says it will be five years before we start to see a different group of people emerging into the senior leadership of the civil service, and the people in that group will have different career tracks from the other ones.

Q827 **Chair:** So a depressingly long time. I have one last question on Carillion. PwC is being paid money to deal with some of the processes there. Who is assuring the money that they are being paid? Is that you, Mr Manzoni?

John Manzoni: Actually, officially it is the official receiver and the court process that does that.

Q828 **Chair:** Do you get any oversight of that at all?

John Manzoni: We are having what we might call administrative and management conversations with the special manager, who is doing all the transferring of the contracts and the people, so we have oversight of that activity. The value for money of that activity is the official receiver's business and, in turn, the court's business.

Q829 **Chair:** And do you think—opening up a whole area of questions here—that the official receiver is really geared up to look at the value for money of how £50 million of taxpayers' money is spent in that context?

John Manzoni: I think there is a pretty good—

Q830 **Chair:** Okay. I think it is too late to go too much down that route. Mr Rhys Williams, you may add one brief point to that.

Gareth Rhys Williams: A very brief point. What we have asked the official receiver to do, and what they have used the special manager to do, is not to do a normal liquidation. In a normal liquidation—this is Ms Flint's point about value and how we have achieved it—if we had just let this go into liquidation, all of those people would have been unemployed and several public services would have collapsed. It would have cost us a lot to get emergency suppliers to reinstate them. But the trade-off is—

Chair: Trade in liquidation is rare—well, unique.

Gareth Rhys Williams: It is unique. So the trade-off is that we have had to spend money with PwC to manage that company and, if you like—I have used this analogy before—let the piano roll down the stairs, rather than chucking it out of the window. But what we have achieved as a result is no blips in public services, and we have not had to pay other vendors to



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come in on emergency rates to do it. That is the trade-off. The net cost has been much lower.

Q831 Chair: Mr Rhys Williams, one of the things that you have entertained us with this afternoon has been some amazingly interesting metaphors. I think you have upped the standard—whether that has raised or lowered the bar is a matter of judgment for others. I am sure that there will be a game of bingo among your staff for the most interesting one you bring in next time.

With a lot of the system changes that we are talking about—the relationship between the centre and the Departments; you keeping an eye on what is going on; all these databases of information; you seeing what is going on throughout the supply change; knowing where the risks are for any mitigation or handling any problems in future—how much is technology-dependent? Are you being given the money that you need to do that, especially with Brexit and everything else going on?

John Manzoni: We are getting money to do various things. I mean some of the databases and things are obviously technology-dependent, but those are being put in place over time. I do think that there is a conversation to be had at spending round. As we do build—

Chair: The NHS has the money now—you haven't got a chance, have you?

John Manzoni: As we do build—

Q832 Chair: How much money do you reckon—

John Manzoni: We are actually working it all out now. It is quite unusual to fund—

Q833 Chair: What about the range, or the scale? Millions? Tens of millions? Hundreds of millions?

Gareth Rhys Williams: Tiny amounts.

John Manzoni: "Tiny amounts," Gareth says. In the scheme of things, tiny amounts, but not insubstantial amounts for the delivery of certain things at the centre that are best funded in the centre. That is an unusual thing for Government. We should fund our—

Q834 Chair: So you might be taking a haircut from every Department's spending settlement? They are going to love that.

John Manzoni: And how does that go? That is why it has to wait for a spending round and we have to make a proper case across—

Q835 Chair: So there will be yet more delays in rolling this out.

Gareth Rhys Williams: To put it in context, Coleen's team is 30 people managing spend of £20 billion. That is good value for money. If you look at the savings we have announced across the commercial function, the commercial function is £200 million managing £50 billion. That is cheap.

Q836 Chair: It is good value if it works and it delivers. You have heard our



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concerns in other hearings and from other Reports we have done about the shape of the market and what happens if there is failure. So often we see near-failure or contracts going wrong along the way. Carillion was a very particular thing. It is worth acknowledging, as the NAO has, that a lot of good work was done to stop total collapse. Mind you, as Ms Flint says, it would have been very tricky if it had happened a month earlier, in December, wouldn't it?

John Manzoni: We might have accelerated the contingency planning—

Q837 **Caroline Flint:** Could you cope with two strategic suppliers going into insolvency?

John Manzoni: Could we cope? I hope we don't have to.

Caroline Flint: We all hope you don't, but could you?

Chair: That might be enough to kill you, Mr Manzoni.

John Manzoni: It would obviously be more difficult than one.

Q838 **Chair:** The worry is that Carillion sat in front of us and said that they just kept believing that the Government would bail them out.

John Manzoni: I know—right up until the Sunday.

Q839 **Chair:** Right, but did they have any grounds to believe that?

John Manzoni: No.

Q840 **Chair:** But the message just goes out that, even if things go wrong, the Government will still be the provider of last resort, which demonstrates some of the challenges with the whole outsourcing industry.

John Manzoni: It does. I think the reason they felt we would step in is that they did not believe we could cope with the consequences of their failure. Nobody would wish this, but they were wrong about that. That has sharpened our concern about the other suppliers and the other contracts that are red. We have talked all about that. We have to concentrate. These things do impact people's lives—nobody would wish them to happen. I think it was handled very well, but I would not wish us to get into the same position again, and we must be careful not to.

Chair: We have had an interrupted session. We will leave it there. If we have any other questions, we will come back to you in writing, given the late hour. We are planning to put this Report out before the summer recess. It may be chapter 1 in a series—we are looking at other areas, and we will see where we get to on this. The transcript, as ever, will be up on the website uncorrected in the next couple of days. Thank you very much indeed for your time.