



Communities and Local Government Committee

Oral evidence: [Local Government Procurement](#) HC 712

Monday 28 October 2013

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Written evidence from witnesses:

Panel 1 (Questions 1-69):

- [Halton Borough Council](#)
- [Cheshire West and Chester Council](#)
- [Local Government Association](#)

Panel 2 (Questions 70-112):

- [UNISON](#)
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Members present: Mr Clive Betts (Chair); Bob Blackman; James Morris; Mark Pawsey

Panel 1: Questions 1-69

Witnesses (Panel 1): **Lorraine Cox**, Head of Procurement, Halton Borough Council, **Julie Gill**, Director of Resources, Cheshire West and Chester Council, and **Brian Reynolds**, Head of Productivity, Local Government Association, gave evidence.

Chair: Can we begin our first evidence session on local government procurement? You are all most welcome; thank you for joining us and for getting here. Apologies that several of our colleagues who would have been here on the Committee have had travel difficulties today, but it is understandable. We have got a quorum, so we can continue. Thank you for making it. Just before we go into our proceedings, we will just make sure we put our own interests on the record. I am a Vice-President of the Local Government Association; that ought to go on the record.

Bob Blackman: I am Chairman of the All-Party Parliamentary Group on Outsourcing and Shared Services.

Q1 Chair: That is on the record. For the record as well, if you could just begin by saying who you are and the organisation you represent, if we could just go down the row that would be helpful to us.

Julie Gill: I am Julie Gill. I am Director of Resources for Cheshire West and Chester Council.

Lorraine Cox: I am Lorraine Cox. I am Head of Procurement for Halton Borough Council.

Brian Reynolds: I am Brian Reynolds. I am Head of Productivity at the Local Government Association.

Q2 Chair: Thank you for joining us. Those of you who may not have been to a Select Committee before, I am simply trying to get the information from you that you want to share with us about what happens in your authority and the areas you are working in, so we can get better informed about this subject. It is not to try to trip you up or give you the third degree, or anything like that, which you may have seen on the television and thought that is the idea of how Select Committees behave. We are here to get information from you; you have the chance to tell us the issues that you are concerned about, the problems that you have got, and the successes that you are having.

One of the big issues for all in local government at present is the financial cutbacks, councils having to manage with less money and still trying to deliver services. How do you think the procurement has been improved and can continue to be improved to ensure that we can do the most we can to sustain services at a time of these financial difficulties?

Brian Reynolds: What we would say is that, although the local authority sector had a national procurement strategy since 2003, certainly when it was necessary to reduce funding, and councils recognised that, the first thing that the LGA did was to ask one of its chief executives, who was Andrew Smith at Hampshire, to lead a working party on behalf of the sector to develop a new strategy. Quite quickly in 2011 they produced a quick-wins document looking at the big areas of local government spend, and how to achieve savings in those obvious areas like waste, social care, and transport.

That was followed up with a more detailed programme about big wins, and since then we have been developing a more detailed strategy called a national procurement strategy. In particular that looked at three areas of what is called in the trade category management: construction, IT, and energy and utilities. These are big areas of spend, so construction is worth about £10 billion in local-government-spend terms, and IT about £2 billion, and looking at what areas you can get better value from.

There were two other aspects to the strategy. One is looking at putting procurement at the top table—in other words, getting political backing from leaders and senior backing from chief officers. The other would be looking at contract management; if you have got a contract, do you know what it says? Are you getting the most out of it? If you have got fewer resources, do you need to renegotiate it? It is indeed possible to renegotiate

contracts, even if they have not terminated. Local authorities see that as a very important way of achieving savings.

The other area would be collaborating with each other. It is quite interesting: we did a shared services map in 2011, and we updated that last year in 2012; we are doing it again this month, but even between 2011 and 2012, the number of shared procurement services had doubled. There are now 75 councils in 16 formal arrangements where they are all purchasing together, and achieving some significant savings. I can say more about that if the Committee wants.

Chair: I am sure we will come on to that issue in due course.

Brian Reynolds: There will be a very brief overview.

Lorraine Cox: Halton Council, as a relatively small borough council in the North, undertook a whole organisational review four to five years ago, and implemented centralisation of a lot of what we traditionally call back-office services. I believe that procurement is very much about commercial and is something that should be embedded across the whole organisation, rather than being seen as a back-office function. What Halton did was centralise the procurement function; they implemented a team, which was a reorganisation of the current workforce, and placed myself as the head of this service, and I have actually been in post just over three and a half years now.

The commitment from the organisation, particularly politically-driven, was twofold: one was to look at the efficiency improvement for the organisation in terms of process improvement, because we recognised that we could change our local constitution and our local rules, to improve the way that we undertook procurement; secondly, to look at how we work with the business community in order to take the Government agenda forward, particularly engaging with SMEs.

We started on a campaign three and a half years ago, starting with businesses and making a public declaration that we wanted to improve with new ways of trading with Halton in order that we got some more engagement from the business community. I can share with you today that our spend for 2012-13, with SMEs nationally, is 89% of our influential spend, which I think you will find is one of the best in the country.

In terms of improving efficiency, we bring process efficiency through significantly changed rules, we have removed PQQ—Pre-Qualification Questionnaire—and we have changed our internal rules in terms of having no thresholds. We only undertake a formal tender process when our values trip into EU legislation, so we have simplified the process below EU thresholds. We have reduced the bureaucracy internally and indeed for businesses, in order that the process is radically improved in terms of time, speed and efficiency, and we have seen gains from office time spent on procurement.

More importantly, we are seeing over a £1 million year-on-year of cuttable savings across the whole organisation. Although I will say, as we move into year four of the campaign, that is starting to get more and more difficult, as we are a relatively small organisation, and that is against a backdrop of significantly falling funds, hence why we want to work more regionally with our neighbour partners.

Julie Gill: We are a relatively young council; we are four and a half years old. We were formed out of the local government reorganisation in 2009. As we set about building a new organisation, we put procurement at the heart of what we were doing. By that I mean strategic procurement, not just the compliance elements of procurement.

We inherited half a county and three district councils, so we had some duplication in our contracts. Therefore, it was urgent and absolutely necessary to be looking at what contracts we had inherited, as well as the opportunities. As well as looking at some of the detail of the logistics of what we were doing on the ground, we wanted to make sure that we captured the opportunities for strategic procurement. We recruited a head of procurement from the private sector, and started work on implementing category management straight away.

We were going into the categories that Brian talked of earlier, in terms of the heavy industry side of local government, but we were also building on the social side of procurement and commissioning as well. We set a target at that point of 10% of our net spend, which worked out at £24 million. We have delivered around £18 million of that so far, in four and a half years. Much of that has come from the big heavy placed contracts around waste collection, waste procurement, transport and highways maintenance, but we have also delivered £2 million or £3 million on a number of the softer social contracts, in terms of working and helping people on the children's and particularly the adult side of things.

We have taken procurement as part of driving the culture of the organisation; we do not see it as simply a mechanism to take money out. We are using it for demand management, and for making sure that we are upskilling our people in specification and commissioning. We are investing on the commissioning side and, in particular, on the people side of things, following on from our recent experience as a community budget pilot. We would see the skills of procurement really driving our culture as we go forward over the next few years as well, particularly as we look at the settlement and the challenges in there. Procurement has been at the heart of what we have done.

Q3 Chair: Is there a danger that a focus on procurement and commissioning, and almost the specialisation of the work, can get a focus removed from improvements to service delivery—which, again, is the key to what authorities should be doing—and more focused on the mechanics of doing a good procurement exercise?

Julie Gill: If I could answer that, I would say not at all. In fact, that is what we have been trying to guard against. One of the examples we have used in our submission would be where we put the housing management out in one of our areas. In there we worked with tenants and residents, as well as local workforces, to be looking at how we went through the process; we engaged with them to see what they wanted. I think they were a little fearful of how we were going to go; they had always been with their local council, which had just changed to become part of this bigger council. We were very keen to make sure that we set up the workshops to listen to what the residents wanted, as well as looking at the commercial factors that we had used there.

What we have achieved out of that procurement is extra investment in the local economy, a better service in terms of performance—we have seen the benchmarks go up—and a greater level of tenant satisfaction, to name but a few elements of that. We are always

mindful that we do not just make it a mechanistic process that drives the saving. We want to try to make sure that we co-design our services with the sector, and sometimes the procurement methodology that you use, such as a competitive dialogue process, whereby essentially you can design it with the bidders, can enable us to make sure that we maximise that value for the services.

Lorraine Cox: To respond and follow Julie, in terms of Halton Borough Council, we have taken probably quite a brave approach, as I say, with big political support from the chief executive, to look at a risk-based approach, rather than looking at the value and the threshold. What we found from that is that by coaching and educating the whole workforce, particularly those who are probably middle management and making the true decisions about procurement, and managing their budgets, we worked very closely with what I would call the service specialists, to ensure we get the specification right and the pre-procurement activity right, in order that when we go out to market we are not focusing on price; we are focusing both on price and quality, hand in hand.

We have a very flexible approach to how we risk assess in terms of drilling down to what we need to ask, and what we need to identify in terms of reducing risk to the council, but also taking hand in hand the approach of looking at the service outputs and outcomes by working with the specialist department to ensure that quality is not compromised once we go out to market. You find nationally that some councils will put rules in place where they will say, because of the efficiency agenda at the moment and the budget pressures, that we must put everything weighted 80% for price. What we have is a flexible approach, and we look at that in terms of what is appropriate and proportionate to the procurement exercise.

Q4 Chair: If I went to the service managers in your authority, they would give me exactly the same story that you are giving me?

Lorraine Cox: They would 100%, yes.

Q5 Chair: I have often heard from service managers, “Well we would not have done it like that, but those commissioners of services do not get it, and they are in charge of this”.

Lorraine Cox: I would say three and a half years ago, yes, you would be right; you would have had that response. However, I am quite confident in the way that Halton has approached this; it has been a whole-organisational agenda. We have done a lot of internal education as well as with the business community to educate and support officers to think about what we need, rather than what we want. There has been a big internal campaign to change mindsets and thinking.

Q6 Chair: Brian Reynolds from the LGA, you have got this procurement pledge, and you have been trying to set standards and guidelines for authorities to follow. What impact do you think you have had, because we had some authorities talking just last week, who basically said they were not signed up to the pledge and did not think it was relevant?

Brian Reynolds: We never asked any council to sign up to it; that would have required a formal council resolution or a cabinet resolution. We consulted widely on it; we had over 100 responses from individual local authorities—written responses—as well as responses from the CBI, Federation of Small Builders, and NAVCA, the voluntary sector

organisation. We try to set out good practice—good practice that the sector actually does, recommends, puts into practice, and promotes it.

It is disappointing if some say, “It is of no relevance to us”. I would be really surprised, since some of the principles are so simple and straightforward really: making procurement as simple as possible; using Pre-Qualification Questionnaires only where necessary—what we know is that about 85% of local authorities do not use them for under the EU threshold, so that is good—and the drive for value for money, which the pledge makes very clear. I would be surprised that any local authority would say those simple principles are not relevant to them.

Q7 Mark Pawsey: We have heard from each of you about some of the methods that you are introducing to try to make procurement more effective, but I am quite interested in what drives the need for improvement. We have heard, on the one hand, from the Chairman about there being less money around, and I am sure each of you said there is less money around, and that tends to imply that when there is lots of money around, councils might be less bothered about doing procurement, and say, “Does it matter? There is loads of money there.” The other driver you have told us about is the EU directive. Again, in the absence of that directive, would councils be less bothered about making certain that everybody that is entitled to get on a tender list is on that tender list? What drivers for change are there, and what is the order of priority?

Brian Reynolds: The Committee will be aware that up until 2010 there were a number of Regional Improvement and Efficiency Partnerships, so the West Midlands one, which covered 33 local authorities, achieved savings of over £100 million across those 33 local authorities. That is prior to the current financial arrangement that we are in. Procurement Lincolnshire, which is a collaboration of eight local authorities—so Lincolnshire, the county, and seven other councils—have achieved savings of £9 million in procurement alone between 2008 and 2012.

That driver to make efficiency savings was there before the current situation. Obviously it is absolutely true that if you are looking at a cut in grant of 40% over the lifetime of this Parliament then that becomes an even more important driver, but the comments made by my colleagues are absolutely right; people have been trying to get better quality out of the spend with the private sector and the voluntary sector, and that has been a big driver. One of the examples that we promote a lot is with Wiltshire, who let a completely different kind of home care contract. Instead of the normal thing, where you book from a homecare provider a half-hour slot or an hour slot, they work with residents and their carers and the companies.

Q8 Mark Pawsey: That is the process, but what drove that in the first instance? Was it a reduced budget, somebody from somewhere else telling that authority they have got to do it, or something else?

Brian Reynolds: So the key point about that was that instead of just providing an input—half an hour’s care to help Mrs Smith get up in the morning—what they looked at was a payment-by-results process, with the intention that after a period Mrs Smith might not need any care at all, so that she could be rehabilitated to the point where she could get herself up, wash herself, and provide breakfast.

Q9 Mark Pawsey: Was Mrs Smith's quality of life the driver?

Brian Reynolds: It was all about Mrs Smith's quality of life, and so that is something that was very critical to them.

Q10 Mark Pawsey: Lorraine, what are the drivers for you?

Lorraine Cox: Very similar, but on a local level clearly we are driven politically, in terms of my local members. Their main directive, in terms of their function as a local government councillor, is to ensure that the people within Halton are maintaining, if not improving, quality of life. We are one of the probably more deprived boroughs within the country, so it is very important to us to look at health, wellbeing and quality of life. What we have recognised through procurement is that we can challenge contract, challenge the way we go out to market, and look at service design to make a difference to the community.

Q11 Mark Pawsey: Are you saying it is the voters that are driving the change? They do not want to see their hard-earned taxes wasted, whether local taxes or government grant, so they are the people who are pressing the council to spend the money more wisely?

Lorraine Cox: Absolutely, and clearly that comes to myself.

Q12 Mark Pawsey: Do councillors put, "We are going to make this happen" on their election leaflets? Is it that much of an issue?

Lorraine Cox: It is that much of a priority for my council that myself and the leader stood on a platform in the borough, on 24 or 25 November 2011, and made a declaration that Halton will change in order to improve how we spend the pound.

Q13 Mark Pawsey: Were those councillors who espoused that rewarded at the ballot box?

Lorraine Cox: I would not like to make a political response to that for obvious reasons; I know we are being recorded. I would say that we have a lot of support within the community, and the way we have demonstrated that is by doing a lot of business engagement. We know from the local Chamber of Commerce and business advocates that they are seeing the return by our success, particularly with the output of spend into the SME community.

Q14 Mark Pawsey: Julie, what are the drivers in your council?

Julie Gill: Yes. I mentioned that we were only four and a half years old, and we set out with quite a brave agenda, really, which was about local growth and quite a bit of capital investment, as well as customer care and looking after our residents. As I said, procurement has been at the heart of that. For us, it has been about value for money and working for the local taxpayer, to make sure that council tax is kept as low as possible, as well as delivering the savings. We have always pledged not to be cutting front-line services, so procurement has been a key element of achieving that.

For the capital side of things it has been about the most efficient means to delivery, as well as a good price and good value, and for the service side of things it has been about a co-design, as I mentioned earlier. We want to be getting better value for money as a whole, and sometimes that is about less money, but quite often it is about making sure that you get a better service, sometimes for the same money, but ideally a better service for less money, if we can. We have managed to achieve that so far in the big contracts that we have done.

Q15 Mark Pawsey: Interestingly, nobody has referred to central Government encouraging you to be better. Are you happier that central Government leaves you alone, does not interfere, and lets you get on with doing what you think you can do best, or do you think there should be a national framework directing you on how you do things?

Brian Reynolds: I am not sure a national framework is terribly helpful. We would say that we think local government generally procures very well, although we might struggle to point to evidence of this—

Q16 Mark Pawsey: You might think that local government procures very well, but I am sure you have got lots of facts and figures that you can back up that assertion with.

Brian Reynolds: I think we can, yes. Certainly if you take some of the Government's objectives, so putting work with SMEs, 47% of local government's spend is spent with small and medium enterprises.

Q17 Mark Pawsey: Is a better measure not whether you can buy stuff at a better price than the private sector, for example?

Brian Reynolds: It is not just about price. Most local authorities will want to take the most economically advantageous tender, so they will weigh up quality and the price aspect. Sometimes local spend and local economic regeneration is an important part of how they organise their spend.

Q18 Mark Pawsey: Do you think you buy better than the private sector?

Brian Reynolds: I am not sure I can say, because I have not been a purchase manager in the private sector.

Q19 Mark Pawsey: There are no criteria, then, for assessing public procurement performance against private sector procurement performance.

Brian Reynolds: There are no set criteria, although we probably know what "good" looks like, and so we would say that proper engagement with suppliers prior to contracts is important; we would say that assessing value for money is very important; getting outcomes that local people want is very important. We certainly know what "good" is like. Clearly, though, a different regime applies to public sector procurement than it does to the private sector.

Q20 James Morris: Brian, you have obviously done some work looking at best practice within local authorities and benchmarking. Have you got an estimate of the savings

that could still be realised if all local authorities were doing procurement at the optimum level?

Brian Reynolds: No. We do not have a figure, and I cannot give you one. I mentioned a couple earlier: the West Midlands RIEP has saved £106 million for 33 councils, and Procurement Lincolnshire £9 million between four years. I do not have an overall figure of savings.

Q21 James Morris: What do you think some of the barriers are to further potential savings?

Brian Reynolds: Certainly around construction, greater certainly for local authorities on their capital allocations would be helpful from central Government. I know this is an issue for central Government too, but the EU thresholds are absurdly low, so doing something about that would be helpful. There is no significant evidence of cross-border trading, and that needs to be raised. The next big issue for local government is, although it does a lot of what you might call horizontal integration and collaboration—council with council—these days the next big challenge for us as a sector is vertically, with police, health, and those other partners who we are increasingly working with to deliver outcomes. We have got community budgets now; there are a number of local authorities who can only deliver a service well with a partner, and procuring well with them is the next big challenge for us.

Q22 James Morris: Lorraine, I just wondered, are there further savings to be made in your local authority, and where would they come from?

Lorraine Cox: Absolutely. We have obviously pushed Halton as hard as we almost can, because we are coming up to year four, and traditionally most large contracts are around about a four or five-year cycle. We are getting to the point where we are coming to renew, although we have seen some further gains on some of our contract renewals, where we have gone back out to market.

My council is currently seeing about £1 million year-on-year against a £74 million influential spend backdrop. What we are starting to do now is look at the lower value spend, from £1,000 up to EU, so more of the middle spend, and what we are seeing is my department touches £5 million of spend activity through the way that we process procurement; we are seeing £500,000 of what we call cost avoidance. They are not elements of spend at the moment that we want to cut, because we are trying to identify patterns. Clearly the accountants want to see spend that can be cut from budgets and make an impact, but the process of touching the procurement and seeing that we are influencing that middle spend is having an impact locally.

The X-factor for us in terms of what we are doing next is working with partners. We are aligning our processes into Sefton Council, one of our neighbour councils, who have recognised what we have done. They have engaged with myself to come and lead a project of organisational change, to embrace the process, the rules, and the way that we run procurement, because they want to get what we have got from our improvements.

Q23 James Morris: Are the savings that you are achieving being recycled, as it were, in to frontline services, or is it just an efficiency saving?

Lorraine Cox: The department's budgets are the actual budgets that are cut. Although the target is classed as a procurement saving, what we have to do is work with the accountant to see whether that budget can be reduced as a permanent cut. Clearly the agenda is that we have got to balance our book year-on-year. We work very closely with the service manager or director to negotiate on occasion. I will give you a very quick example: we have recently let a highways contract, and that is being done jointly with Warrington Council. What we have said to the department is, although we can see an £18,000 cut within the first year, we have renegotiated to put half of that back in, because clearly we have got to maintain, and in some areas improve, the state of the roads. It is not just about cutting budgets; it is about recycling those funds as well to put service improvement in place.

Q24 James Morris: Julia, are there further savings to be made in Chester and Cheshire West?

Julie Gill: We targeted £24 million in the first year; we have achieved £20 million annual recurring savings out of our overall budget. I would echo what Lorraine has said in terms of the detail and going for the local spend—we call it the tail, if you like—the top 80% spend with the top 20% of suppliers. I have two things to add: one would be to push contract management, which Richard mentioned at the beginning. Particularly in social care, it is looking at that contract and making sure that we are getting what we are paying for, the outcomes, and looking at the impact upon the people receiving the service. The other one I really want to focus on, following up on community budgets, would be joint commissioning and working closely with our health partners, because we see potentially quite a bit of savings in those areas; there is a lot of spend at the moment there.

Q25 Bob Blackman: Lorraine, before I move on to my other questions, could we just be clear about how procurement works in your authority, because you have centralised everything? Does that mean that managers cannot go and buy anything they like, and that they have got to come through you, and your staff make all the decisions on who you buy from and how it works?

Lorraine Cox: The simple summary of the process is basically any spend above £1,000 has to go through The Chest portal, which is our electronic procurement portal. That is administered by my team. Therefore, yes, it comes through our department, but it is all done in partnership with the client user, and everything is web-based. Basically, they raise a request to say they want to buy a John Deere tractor, it comes into my department, we help them to spec, risk assess, and then we assist the going-out-to-market process. All procurement comes through one central portal.

Q26 Bob Blackman: Okay, I just wanted to clarify. Moving onto my specific areas now, we have got evidence from suppliers—not necessarily with your local authorities, with respect—that say that one of the problems they experience is that there is too much bureaucracy, too many obstacles and trying to do businesses with councils is a nightmare. They almost give up hope of ever doing business, and they go, “Forget it; I will walk away.” What are you doing to minimise the bureaucracy and the problems that people have in terms of bidding for your services? Do you want to start, Lorraine?

Lorraine Cox: Again, just following on in terms of what the process is in Halton, we did start a regional campaign within Halton going back to November 2010, where myself, the leader, the deputy leader, and one of the strategic directors made a public declaration; “New ways of trading in Halton” was the campaign title. We put ourselves out into the business community to say, “We are listening and we are open to change; this is a two-way process, but we are putting our stall out to engage with you, and hopefully to listen, learn and make improvements.”

Very quickly from that exercise, through to July 2011, which was six or seven months later, a paper went through my full council to remove the rules, so officers from £1,000 up to EU have to go through The Chest, and from £1,000 upwards it has to be advertised and transparent in order that every business can see the opportunity if they are registered on The Chest. Equally what we did was a series of workshops with our local business community to train and coach in the use of The Chest, completing a PQQ where required and to explain how we were adopting this new risk-based scheme.

Q27 Bob Blackman: So how many suppliers did you have when you started, and how many suppliers have you got now?

Lorraine Cox: We have increased that by 161% in two and a half years.

Q28 Bob Blackman: So roughly, if you could just give us—

Lorraine Cox: It started at 279, so we will do the sums, yes.

Julie Gill: Again, it is a similar story for us. We also use The Chest; we also have done a lot of outreach work working with our local businesses. Back in 2009-10, our new council formed what was at that point called a local recession recovery committee. That was one of the drivers for how we could work better with local businesses. We had a number of business breakfasts where our head of procurement would be going out alongside members, and talking to the communities. We had a number of training events as to how people could engage with our existing processes.

As well as that, in the commissioning and design of any procurement service, we would go out and talk to the users. An example might be where we looked at disability and adaptation equipment, where we went out into our local communities and we talked to those suppliers, and looked at what was available and how we could engage them to be coming through our processes to work with us. There are a number of similar events that we have done to promote ease of use. We have use local construction frameworks, such as the North West Construction Hub, where we are using our lower-value construction work. It is a similar story to Lorraine—promoting all of the trade associations and local business networks.

Q29 Bob Blackman: How many suppliers have you got now, and how many did you have three years ago say?

Julie Gill: I would have to come back to you with that detail.

Q30 Bob Blackman: What about best practice across local government generally? The complaints we have heard, in terms of evidence, have been that dealing with local authorities is often a nightmare; there is too much bureaucracy and too many hurdles to get through before you get to a chance of bidding for a contract, let alone getting one; and then there is lots of bureaucracy once you have got them.

Brian Reynolds: It is interesting; yesterday, because I knew I was coming here, I thought I would Google their websites. Straightaway, on both of their front pages, on their council websites, you get straight through to The Chest; you click on that, and you see the contracts that are available; you click through and you can go, so in both of those cases that was very straightforward.

The Federation of Small Businesses does an annual survey of their members, so this is not the Local Government Association saying this; this is their 2013 assessment survey of their members. They say that 85% of local authorities adopt simpler processes for procurement below the EU threshold, which is only £170,000-odd, and that 86% of local authorities regularly break contracts into smaller lots. I could go on; there is more stuff in there that their members say. What I would say is inevitably, if you have got 375 member councils, some do it very well, and I have no doubt some do it less well. The LGA's position is that, if you are really struggling to deliver this, then join up with somebody else who will do it better for you.

Q31 Bob Blackman: Equally, is it not the LGA's role to facilitate best practice? If these two boroughs are doing a really good job in a particular way, then telling the rest of local government that this is a really good way of doing it—"You do not have to do it that way; what a good way of doing it; have you thought about doing it?"—surely that has got to be an improvement.

Brian Reynolds: Absolutely, and so a huge chunk of our website has all of the 10 best councils to do business with case studies on it, for example. Two years ago we put £250,000 into innovative procurement measures; we are just about to produce a report on that, and that will go on our website. When DCLG announced their £250 million weekly waste collection scheme we brought all the councils together with the major suppliers in Smith Square in order to talk about the fact that there would inevitably be a huge number of extra bins, bags, and trucks being bought. That was a significant impact on the supply chain; there were good ways to deal with that and poor ways to deal with it, and we got them working through. We do an awful lot to promote best practice. I would inevitably accept that some of our members do it very well, and some less well.

Q32 Bob Blackman: Moving on, we have already said that the EU regulations are a potential barrier. What would you like to see the levels raised to before EU regulations kicked in?

Brian Reynolds: There is absolutely no reason why the current £173,000, €200,000 level could not be around £5 million. Seriously, it is an absurdly low level, and there is no evidence of cross-border trading to justify that tiny sum.

Q33 Bob Blackman: Can I ask Lorraine and Judy: what would be the impacts? Say we got our way—and I do not disagree—and the barrier was raised to £5 million, what would be the impact on your authorities?

Lorraine Cox: I would be delighted, personally and professionally. The way we have implemented procurement in Halton would be very open to that change, because our standing orders and our rule book actually state EU as the marker, so anything from £1,000 to EU we undertake a risk-based sourcing exercise. Whether it was £5 million or £10 million, it would not make a difference, because all we do is based on risk, rather than value. What it would mean in real terms, in terms of efficiency for my council, is we would take an EU tender, which currently can be anything up to a 77-day process, and because we are not bound by EU legislation we could bring that process down to something that is proportionate, based on the risk of what we are going out to market to buy. The efficiency in terms of process is enormous.

We did a very crude desktop exercise about three years ago, and we evaluated that you are looking at about £5,000 of officer time to run a simple, albeit EU, tender exercise. If you strip that down, make it risk-based, make the process as simple as possible, and the timeline is not bound by EU legislation, you will see a massive efficiency and improvement through procurement.

Julie Gill: For us, the big thing that springs to mind is the speed of delivery. We spend £100 million on capital. We have got quite an ambitious programme to invest in the borough, and a lot of that is over the EU threshold and goes through the full OJEU process. To be able to shorten that, taking it on board with the risk analysis and so on, would really help promote growth in contracts, in construction in particular, in our borough.

Q34 Bob Blackman: One of the other concerns that suppliers raise in evidence is the fact that authorities are a bit too static, too fixed—“We want this”—and there is no position for dialogue in terms of innovation, creativity and so on. Julie, you have talked about adult social care, for example, and children’s social care, which are clearly areas that are very sensitive, but some creativity could come in. How do you foster this idea of innovation, amongst both officers and suppliers?

Julie Gill: We have a couple of examples of where we have used a competitive dialogue process, rather than the standard tendering process, and that has been useful. One of the downsides is it is quite resource-heavy for the council to run, and also for the suppliers to engage in, but where we want to co-design services, and where we want to make a difference on performance, and try to get something extra, the competitive dialogue has proved very, very useful. It has also allowed our suppliers to shine and show what it is that is different that they bring to the party.

Lorraine Cox: I have possibly a similar answer. We have looked at how we can do a lot of pre-procurement, in order that we engage with businesses in what I would call a safe environment before we go out to market, for obvious reasons. We have seen a lot of benefit from that, because clearly I have got a raft of experts within my council, but it is also very useful to talk to the business community who do come up with innovative ideas. We also look at it from a social value point of view now, and that is something I am

driving hard within Halton to say, “How can we measure the value of a contractor within five miles within the borough contributing to this particular service design?”

The other thing we have looked at is working very closely with neighbour councils, in particular, to look at whether we can create a joint contract—we have done this with Cheshire West as well—in order that we are sharing ideas across boroughs, because one borough may see something in a particular way; another may have some good ideas to share. We are very much trying to get the roundtable approach at pre-procurement, in order that we get the specification right, before we even start a live process.

Q35 Bob Blackman: Brian, one of the issues that I well remember is that amongst co-operating local authorities where chief executives agree and leaders agree that they should co-operate, but down at the middle management level it is, “It will not work here, because we do things differently”. How can you get authorities to co-operate in those circumstances?

Brian Reynolds: It would be a fair challenge to say that if you looked at, for example, shared services, when they first started being discussed in the sector in around 2007-08, everybody wanted to host and no one wanted to be hosted. We do this map, as I say, which is available on our website of shared services; between 2011 and 2012, there were almost double the number of shared service arrangements between councils, and an increase in their value—what the councils claimed as savings—from £168 million to about £268 million.

That is gone; local authorities are now absolutely pragmatic about sharing. It is perfectly possible to share one large waste collection and disposal contract, and yet still have all your vehicles badged with your council logo on it.

Q36 Chair: What steps are you taking to try to ensure that social value is reflected in your procurement policies, whether it be effect on the local economies, specifically on local jobs, apprenticeship training, or paying the living wage? All these are things that councils are doing. Have you got any specific examples of what you are doing in your areas, and how successful it has been?

Lorraine Cox: We have looked at this quite seriously. In the legislation we are told the word is “consider”, and what we have tried to do is say, “Let us consider through all spend, not just social care spend, and look below EU as well”, which is where we think the X-factor is, particularly in a council that is quite small. Through the risk-based approach to procurement, we have looked at how we can put categorisations in there; what I mean by that is where we can go out to market and test the concept of social value, but measure it in order that we are giving everybody a fair platform to compete.

If I can give you a real example, we went out to market recently for a contractor to undertake a removal contract for us, which was probably around the value of about £35,000 per annum; it was relatively small, but we wanted to look at that to see what social value could be added. We weighted the tender exercise, although it was below EU, by 70% on quality and 30% on price, because although we recognised we wanted to secure the best value for the council in terms of price, we wanted to make sure of the quality element, in terms of employment, engaging with local workforce, and response times, and we tried to build in clauses that would tease out some localism—dare I say it—from that contract.

I have to say that the three winners—if I can call them that; obviously clearly the winner was the winner—but the top three were all within a nine-mile radius of our central headquarter office. Before we went out to market, we undertook a pre-procurement exercise, invited the current incumbent, as well as anybody else that was interested, and that was advertised through The Chest, to say, “Come and talk to us, come and understand what we understand by social value, and come and listen and understand what we mean in terms of economic drive within the community and the wider remit of the council, rather than purely looking at it from a financial point of view”, in order to try to tease that out.

Chair: That seems an awful lot of work for a £35,000 contract.

Lorraine Cox: That was the pilot; we did it just as a pilot.

Julie Gill: The big, big thing for our council has been looking at trying to increase the rate of apprenticeships and local jobs created. They have been the big drivers through the big contracts that we have done. We try to prioritise local; we have broken up some procurement into small lots, and got local suppliers: for instance, meat for schools is one of them, and there are a number of other examples. The big thing is trying to make sure we get those apprenticeships and opportunities for local people, and local young people.

Q37 Chair: In doing that, do you put any weight or value on apprenticeships, as against the price of the contract?

Julie Gill: Yes. Very few of our contracts are just about price; if you have a commodity like paperclips—nobody cares where you buy your paperclips—that would be on price, for instance, but very few of our contracts are just on price. Quality of delivery usually has a very high weighting, and in terms of the specification, we talked earlier of trying to ensure we have got the specification right before we go out to market, and talking to understand what the market is. All of that helps lead to a quality specification where you can prioritise those social-value drivers.

Q38 Chair: From the LGA point of view, there must be some quite interesting ideas going on around the country, and things being done differently in different areas; how far is the LGA able to disseminate that and give an opportunity to look at what is happening elsewhere?

Brian Reynolds: We are hosting a “One Year On” event in February over at Smith Square, and it will be interesting to see how those come out. The other interesting thing is that the new EU directives potentially help in this field as well, so allowing mutuals and social enterprises in the social and healthcare field not to have to be EU tendered out for the first three years is very helpful. I look forward to seeing what comes through it, and that will be on our website, and we will promote that through the national advisory group of senior procurement people that we have. We also promote through professional bodies like SOPO—the Society of Procurement Officers—who have their annual conference in a week’s time; we promote through that channel as well.

Q39 Chair: Do you think the whole issue of giving priority to social value in contracts is going to be more difficult to justify as the squeeze on financial resources becomes even greater in the next two or three years?

Lorraine Cox: The honest answer is that it is going to be a challenge for us, but we are trying to look at innovative ways around it. The reason I have just popped my hand up is I have thought of a couple of other things to share. Our next campaign is to look at the voluntary and community sector in particular, because we feel there are a cohort of community that seems to be untouched, and there is a lot of challenge and criticism coming to local government, particularly as budgets start to fall, that perhaps some of the cuts are being made in their direction.

With our local voluntary and community sector, we examine where they have a quality assurance scheme; in Halton and St Helen's we have a scheme called the STAR Standard. We are looking at how organisations in the voluntary and community sector that are part of the STAR Standard almost get a prerequisite into being part of the quotation or tender. There are different ways to approach it to gain some success and value.

Looking at it from a larger scale, we secured Building Schools for the Future money in the olden days, and we completed two school schemes; they were finished last year and are now operational. We built a number of clauses within their contract: from memory, one of the clauses was around recycling the Halton pound. The incumbent of both school schemes—one was PFI; one was design and build—exceeded the target that we set within that contractual clause.

Q40 Mark Pawsey: Can I come back to the issue of SMEs? Can I take it first of all that, when you are referring to SMEs, you are using the new Government definition of SMEs, which I think is a business employing up to 250 people with a turnover of £25 million? In most parts of the world, and certainly the part of the world that I represent, a business of that size is not really a small business; that is a pretty big business. Lorraine, you told us that 89% of your purchases went through SMEs, so is that up to that definition?

Lorraine Cox: Absolutely right, yes.

Q41 Mark Pawsey: Do you, over and above that, keep a record of what the spend is with perhaps microbusinesses? People would probably see a small business as a business employing five people turning over up to £250,000?

Lorraine Cox: The honest answer is that we do not, but it is something that we are now going to target ourselves to do, because we are quite data rich, and we have some very cleansed data in terms of having good categorisation around what a business is, and we have captured that through our finance systems, but also through The Chest as well. To be fair, when we put a bid in for the Best Council award back in May—we wrote the bid in February—that was the first time we did a data run to say, "How much are we spending with SMEs?" because we did not know, and that was not one of our measures, although we do measure a lot.

Q42 Mark Pawsey: Of the other two witnesses, is either of you looking at what you spend with micros in addition to SMEs?

Julie Gill: We are starting to look at that. It is largely secondary spend through subcontracting, so while it is easier to keep track of the direct spend with local suppliers through your contracts, we are starting now to collect the data on where the secondary spend goes, and where the subcontracting goes. In particular through construction networks

and so on, that is where you can often get into the smaller businesses and the microbusinesses.

Brian Reynolds: The LGA funded NEPO, which is the North East Procurement Organisation, which is one of the PBOs—the Public Buying Organisation—to implement a spend-analysis tool. They have only just implemented it, but in about nine or 10 months' time that will give us good data on microbusinesses, SMEs, and other contracts, and, of course, also then by category as well.

Q43 Mark Pawsey: It is good to hear that each of you are doing what you can to support SMEs and perhaps also micros, but there is a tension here, is there not, which is that bigger contracts give bigger volume, which gives a better price? Both Julie and Lorraine have told us that getting good prices are good for the electorate. If we have got that driver to get a better price, how does the small company get a look in?

Lorraine Cox: It is an interesting point. What we have tried to do is break where we can—packets of work I call them, but the correct term is into lots, in order to give more of a medium enterprise an opportunity, and that is with the spend that tips over EU. I will give you a very quick example: we went out to market last year with three categories—electrical, mechanical and buildings maintenance—and we broke that down into six lots. Those of you that may know where I come from may know there is a big river in the middle of our borough, so we wanted a contractor on either side, for obvious reasons, like bad weather, when the bridge is shut.

We put a procurement model together to evaluate if a bidder bid for one lot, two lots, or six lots, in order that we are trying to put a fair platform in place. One company was national, and the other two companies that bid for two lots were local, and in the borough as well, so that was a success story. Because of the way we have changed our procurement, because we are looking very much at below EU—because, to be frank, we do not do many tenders above EU now—we find that our risk-based source teases out the best contractor for the job. We are finding that our spend is going to more mediums.

Q44 Mark Pawsey: I heard Julie talk about breaking contracts into lots; should that not be a concern for taxpayers, because Julie you said, “Few contracts are just about price”? We have already said that there is far less money around now than there used to be, and getting good value is very important; would the electors of your council not be rather worried to hear that few contracts are about price? I would have thought they would have wanted to hear that price is pretty important here, and if that means bulking together our purchases, or adding with other people to get a better price, then your council should be doing that.

Julie Gill: Price is very important; I think what I said is that it is not just about price, because quality is also very important. It can often depend on the type of contract that you are letting here, because if you are looking at construction, we would often use something like the North West Construction Framework. We have just talked about subcontractors, and that is one of the ways in which, quite naturally, the big contract gets the value, but then it would break out into subcontractors, which promotes local work, but also the value is still covered by the bigger procurement.

One example I would use, which is one of our favourites, is we had a large contract for our school meat supply right across our borough in West Cheshire. It used to come in from a

national supplier, be taken up the motorway, and was often frozen. We broke it into lots. We got a number of local suppliers who could deliver the meat fresh to the schools, and we still got a 10% saving.

Q45 Mark Pawsey: So the assumption that, if you put a contract out for £10 million of goods, you are not going to get a better price than a contract that goes out for £1 million of goods—for like-for-like goods—is not a safe assumption.

Julie Gill: I do not think it is as simple as that, because it is about the process that you use and the value you can get for the taxpayer; it is not just about price, but price is very important.

Q46 Mark Pawsey: You came back and said that quality of delivery is important; how does a supplier who has never supplied you before demonstrate quality of delivery? How can he show you that? I also understand that in your procurement process an existing supplier is not able to refer to the quality of delivery, whether that is a physical delivery or how they deliver the service, in the tender, because you are supposed to be blind to that particular component. I was surprised to hear you say that quality of delivery was important.

Julie Gill: It is important. As we talked about earlier, each tender has its own criteria and it is weighted for quality and price. It depends on what it is; if it is a standard commodity that is the same everywhere then it will go on price. Just looking at the example of the meat contracts, the procurement process would be designed to allow efficiency of delivery and quality of food, and all of the different components to be a factor within it.

In the example we talked about there, we were able to break it into lots and get a 10% saving, and get fresh food delivered locally, because Cheshire is a rural county, so it helped promote that. They demonstrated that they could get the delivery on time, that it could be fresh, and that they could do it cheaper. Transport costs were a big element of that particular one, because it was not being bussed up the motorway.

Q47 Mark Pawsey: May I ask more generally, are there things that you can do to encourage SMEs to participate? For example, what can you do to pay SMEs more quickly than bigger companies, and do you do that?

Brian Reynolds: Yes. We do promote prompt payment. We would see that very much as part of what “good” looks like. We think local government has a good tradition on prompt payment. The issue quite often is that, certainly in construction contracts, you will have a main contractor, and the big beef—this is what we hear from the FSB and others—is that although the client pays the main contractor, the main contractor does not always pass that on to the subcontractors.

There used to be a performance indicator on prompt payment; the standard for local government was in 30 days. When that was removed in 2010, local government’s performance on that indicator was very good.

Q48 Mark Pawsey: Lorraine, you came armed with loads of figures, so I am sure you can tell us how swiftly you pay SMEs?

Lorraine Cox: I will hold my hand up and say that payment turnaround is not my area of expertise, but I am aware that Halton Council has recently implemented something called Early Payment Scheme, where we are encouraging SMEs to sign up, at a fee, to receive an early payment. Clearly we are a business, but we are looking at cashflow into the SME community.

Q49 Mark Pawsey: What about this business of subcontractors? What can you do to make sure that the main contractor pays the subcontractor on the same payment terms that you pay the main contractor?

Lorraine Cox: A contractual clause that it is a “you must—you will”.

Q50 Mark Pawsey: Have you enforced it?

Lorraine Cox: We have not had a challenge yet, but it is very new, and we have tended to do it with the larger contracts. We are talking, like the tarmac contract, of contracts of around £10 million, where we have got clauses built in, so we are testing it with the larger value spends. As far as I am concerned, it should ripple right through the market, because what is going to keep SMEs buoyant is cash-flow, and we are very passionate about that.

Q51 James Morris: I just wanted to ask about collaborative procurement. I think we had some figures that said only 15% of spend is currently channelled through collaborative bodies. I wonder what more could be done to go down that route, or what the potential for going down that route is.

Brian Reynolds: I heard that, so I spoke to Nigel Kletz yesterday, because I saw that accredited to him. He said that that referred to spend with third-sector organisations.

James Morris: Yes, that is right.

Brian Reynolds: I thought 15%, possibly, with third sector might not be a bad figure. Certainly they are part of a number of consortia themselves, despite the fact that they are a huge council with a turnover of £3 billion. Collaboration takes place on a number of levels; probably the simplest area is around energy and utilities. We did a survey: 313 councils purchase their energy and utilities through just eight consortia. There is a relationship here to the previous question, and the issue there is that it is not possible to get a better price, necessarily, through buying in ever fewer consortia. The issue around energy is often when you purchase; that is clearly a factor. Local authorities, when it is a standard good like energy, they will seek to buy at the simplest and cheapest arrangement.

Q52 James Morris: Energy is a particular sort of purchase, is it not? Are there further benefits of procurement done in a collaborative way with the third sector?

Brian Reynolds: A huge amount of social-care spend is done with the third sector, and it is perhaps no surprise that many of the social enterprises and mutuals that have spun out are in that field as well. It is that kind of field that lends itself to a more bespoke service that is more tailored to the needs of the individual. Certainly, we always invite NAVCA and the other third sector organisation to all the events that we have, and promote the importance of working with them. I saw in the submissions, from both of these two, references to the amount of time they work with the third sector.

Q53 James Morris: I just wonder whether there is a role for central Government in mandating that there is more standardisation in local government procurement. I do not know whether anybody has views about that.

Lorraine Cox: I will happily respond to that. In terms of a mandate—that is a word I actually quite like in terms of the encouragement or the direction of local authorities—firstly working in what I would call an aligned way is important. If we had the same rulebook—I would like them to adopt Halton's; I am very passionate about my role, as you can see—I think there would be big advantages to the business community and voluntary community, because clearly there would be one way of working, one buyer approach, and one system.

In the North West we all use The Chest. I have spoken to DCLG colleagues about contract-finding, and I know there are other systems out there, but there would be a benefit to all with one approach, one way, one rulebook, simplified, and adopting that and running it through.

Q54 James Morris: Would you agree that there is a role here for a kind of standardisation of our approach to procurement as a way of driving further cost-saving?

Julie Gill: For me, it would be mandating the examples of good practice. We would need to leave enough flexibility in there to be continually innovating. The reason I say quality and price is because we have had a number of examples where we have actually designed local solutions that have still delivered savings for us from where we have been. Mandating sharing good practice and the good examples would be a rule book that we would need to keep updating, but we certainly should mandate.

Q55 James Morris: Do you think that centralisation is actually a way forward here?

Brian Reynolds: The feedback from our members is that they do not like being mandated by central Government. If we are talking about the procurement of a very simple sort of product that is nationally produced—in addition to energy you could mention vehicles—then centralisation of that, and purchasing in aggregation, is a good way of getting a good price. On a whole host of other factors, though, that is really not a very sensible way of procuring. There is £60 billion of spend here, and more or less 370 local authorities spending it. Being responsive to their voters and their residents, and being held to account for the price they pay as well as the quality they deliver, are all quite important. There are certainly things about ease of access and process with which we absolutely agree. We said in that pledge that we want local authorities to think really hard if they are using this PQQ process for contracts under the EU threshold. £170,000 is not a lot of money, and you just have to think whether that is a proportionate process for that kind of spend. Likewise, for suppliers to find contracts simply, whether that is on Government's Contracts Finder or through the regional portals, that is a very important thing. It feels to me as though the real issue, especially for SMEs, who probably largely—although I do take the point that 250 employees is quite a big business—tend to trade regionally. Having a strong regional base seems to be a much stronger way than just one central place, because I do then worry about where the flexibility and innovation comes in, and all those other things that we would expect to see.

Q56 James Morris: For a small business, or even a reasonably sized small business that has got three local authorities it wants to tender for a similar provision, is that not a problem? They will all use different documents, which would mean getting legal advice three times, and they might not win any of the tenders. Is that something that could be simplified?

Brian Reynolds: It might be, but I still think that the issue here is often the actual process that you have to go through. We sponsor this work with NEPO—the North East Procurement Organisation—who have introduced this online system, which is a bit like Direct Line insurance. You enter all your details, and every year you have to update them; you do not have to update them every time you submit a tender. There is no reason why that kind of process these days with e-procurement cannot be made an awful lot simpler. You would still have some sensitivity to regional and local differences, and you would build in innovation. I would have to say that some of the PBOs could be moving a bit faster in this field.

Lorraine Cox: Halton's view is that we believe passionately that if everybody in the public sector stripped down the rules, removed the PQQ below EU, and made the whole sourcing process up to EU very simplified and risk-based, that we would see a massive difference across the whole country. I would also like to add that we are clearly working in alignment now with Sefton Council. I have two neighbour councils who have approached my Chief Exec recently to say they would quite like to join in the fun as well, which is really good. We are actually working with Halton Clinical Commissioning Group—CCG—and have undertaken a pilot for them recently to demonstrate how our procurement operates. They have already made a £120,000 saving just from three small tender exercises. We are trying to share the gospel where we can, but it is more about people approaching us because they have heard we are doing something innovative and they want to join in. I am absolutely delighted to be able to share the success with partners across the sectors.

Julie Gill: We are sharing your example of the SME, trying to deal with three local councils. We do collaborate, and are sharing with our neighbouring council, Wirral, and we do some work with Cheshire East Council to try to make sure that local people can deal with us. I still want to preserve the ability to innovate.

Q57 Bob Blackman: Turning to probity and transparency, Brian, there is a whole welter of different measures in place. Are they sufficient to spot fraud and other sharp practices?

Brian Reynolds: It is always difficult to prevent determined fraud, but you are absolutely right. There is the audit code of practice, stemming from 2010. Most councils have whistle-blowing procedures. Our members are required to publish all spend over £500, so there is a fair degree of transparency. The National Audit Office says that local government fraud is worth about £890 million a year, but is not clear how much of that is related to procurement fraud.

In 2014-15 we are going to do a piece of work to try to understand that better, quantify it and consider what can be done about it. We rely upon the Office of Fair Trading and the other regulators. The OFT approached us earlier this year in relation to an inquiry they are

conducting on IT procurement. We have been in discussion with them about construction on a prosecution that they are pursuing, which they announced in March 2013, so on behalf of the sector we do have a good dialogue with them. It is quite difficult for local authorities to take that role themselves, so we represent them.

Q58 Bob Blackman: Obviously the NAO have spotted a conglomerate figure that could apply not just to procurement but a whole range of things. Do you have national figures on what your members have detected in a single year?

Brian Reynolds: No. We have taken the National Audit Office figure, and we intend to do that piece of work next year.

Q59 Bob Blackman: Lorraine and Julie, what errors, mistakes, fraudulent activity and so on have your authorities discovered through your procurement processes?

Lorraine Cox: We have made a commitment internally to make sure that every procurement exercise from £1,000 upwards goes through The Chest, unless we are using a framework that is already pre-procured, so we can see the transaction, because it is all captured electronically from crash to bang. It is really powerful, particularly when you receive challenges, and we do, because we are human. Clearly the business community now are being braver and bolder, particularly because winning a tender could make their business succeed or fail. We have seen an increase of challenge, but we have found that—because we have a very robust audit trail through The Chest system, and because of the way that my team operate in terms of a moderation role through the procurement process—we have got very robust mechanisms in place to make us safeguarded.

We were commended by the National Audit Commission, as was, in 2011, who came and did a deep dive of our procurement process. Obviously our internal auditors have clawed all over us as well because it was risk-based. I have to say my members feel that we have more control now with the way that we work because it is risk-based, and because we have got a very good control mechanism in place; that means we are more secure. We have had a mystery shopper who approached us through the Cabinet Office, and that was rigorous in terms of its challenge, but it is there for the right reasons. We felt that we were very confident in our practice to be able to demonstrate that we had an excellent process in place.

Q60 Bob Blackman: So there have been lots of tests but no problems found.

Lorraine Cox: No, a few dots and dashes. I even checked, on that particular case, the adding up on spreadsheets, because I was thinking there must be something here, but I was very confident that my officers had undertaken a robust exercise.

Bob Blackman: We should get you to work for the Department for Transport as well. Julie?

Julie Gill: On the whole, we have very rigorous processes. We have not come across any major procurement frauds, and we hope that stays the same. We have been commended on our internal control environment, and the checks and balances we put in place, and we continue to give that a high priority. Of course, in terms of the bidders that we get, we do

carry out financial and background checks as part of the tender process, so we focus on that.

Q61 Bob Blackman: Both of you, Julie and Lorraine, have said that a lot of the people now that are actually winning business are locally based. How do you counter the problem of cartels? I am thinking now particularly of the building industry, where one of the problems is that everyone may bid, then either remarkably the same price comes in, or one is really much lower than the others, then funnily enough, the next bid is a different firm that comes in with a lower bid, and they are actually fixing the whole process, in order that one firm gets the business and the others exclude themselves. How are you coping with that problem?

Lorraine Cox: We have seen one example of that in my three and a half years as head of procurement in Halton. I will not be specific because it is not recorded, but an example of where we felt that one bidder was excessively expensive. I am not sure that was the correct term at the time, but we felt it was an unrealistic bid. Equally, we had one that was unrealistically low, in our professional judgment. We took that decision to our legal department to say that we felt there was something that was untoward, took legal advice internally, and made the decision to abandon that process and recommence. There was some smoke behind that situation.

Julie Gill: Again, rigorous processes, and the quality element of what is in there, in terms of how we specify, hopefully. Generally, as mitigated against that, we have not come across any major instances of that, to be honest.

Q62 Bob Blackman: Brian, have you any national figures on this?

Brian Reynolds: None more than I have said before. I do agree with you that construction is one of the difficult areas, and I am sure the OFT would probably agree.

Q63 Bob Blackman: One of the things they said is that the private sector gets much cheaper construction than the public sector. Often bids have an extra zero against them at the bottom when they are public sector bids, whereas they would never dream of bidding such high costs when it is the private sector. Is that still true?

Lorraine Cox: To respond to that, if I may, if you look historically—I am perhaps a bit of a swot, and I do look backwards to see, “What did we buy that for in the past?” I have a team that is quite into doing an assessment in order that we can test the market. What we have seen through our process is that now the market is very much recognising we are a commercial organisation as opposed to, “You are the council, so we will add a nought on the end”. I do believe that perhaps historically that was the attitude.

The other thing, by going back out to market and quite often challenging the incumbent as well, is we are seeing the incumbent come back with a sharper price. It is quite interesting, because the service department might say, “But I really want that person because he has worked with us for 100 years and he is the best ever”. Okay, lovely, let him win and let him bring a sharper price. We are now seeing that change of dynamic; we are actually getting the good contractor who has gone through a fair, transparent and competitive process coming back cheaper, so it is win, win, win for everybody.

Q64 Mark Pawsey: Do you do that mid-contract?

Lorraine Cox: Not mid-contract, no. We do that at the beginning. We do a backwards look when we start pre-procurement.

Mark Pawsey: So you invite somebody to improve their price before letting the contract.

Lorraine Cox: Not at all. This is where the current incumbent is invited on an equal platform to bid, but clearly we know what their historic price has been. We always benchmark what the original contract price was, so that we know what saving we have made against the new contractor.

Q65 Mark Pawsey: Sure, but are you saying he is not told that he has got to sharpen his pencil?

Lorraine Cox: Not at all.

Q66 Mark Pawsey: He does it of his own accord.

Lorraine Cox: He does. The only thing we have deployed, just on the back of that point, is something called BAFO—best and final offer. Again, this has been tested by the Audit Commission as was, where we will actually go out to the top three. This is more in a traditional price-only type of procurement, where we will actually go out to the top three through The Chest, through a controlled environment, to ask, “Is this your final offer?” in order that we actually can see businesses put in hopefully a sharper price.

A very simple example, and I always use it, is what I call the little Britney Spears headsets that we use for our telephone system now; the most competitive price was £25,000. We went out through a BAFO, which is basically to the top three, and £5,000 came off the price of the winner. Very quickly, from one email through The Chest system, we saved £5,000 on asking the question.

Julie Gill: There is something, though, in the perception that the public sector may well be a bit softer, which is why it is important to really be testing the suppliers. We had an example recently. It was not building, it was not infrastructure, and I cannot say what it was because they are out at the moment for the replacement. The supplier came in, and there were a number of very grey areas in the submission. When we actually challenged them, initially they had given answers that gave us a compliant bid, but as we got through the negotiation they actually pulled out as we were getting tighter and tighter on the specification, and we have had to restart. I cannot stress enough the rigour that you need to put into that, taking through your initial analysis and making sure that your bids are compliant, particularly on heavy and complex procurement.

Q67 Bob Blackman: Brian, in terms of auditing changes that are taking place, with the abolition of the Audit Commission, local authorities making changes on their audits and so on, does that increase the risk of fraud?

Brian Reynolds: I do not think so. I would be interested in my colleagues’ views about this, but they will have their annual audit letter that means they will have had their auditor

crawl all over their process. They will also have their own scrutiny committee that will have looked very hard at this, so I do not think the abolition of the Audit Commission itself would lead to increased fraud. They will have their own internal processes.

Julie Gill: That part of what the Audit Commission did has not really diminished—that focus on the internal control environment that feeds into that—so I would concur with that.

Lorraine Cox: From our perspective, clearly there has been a change, although we have the same face under a different badge, who is our external auditor. It is possibly the same for you, Julie. The rigour in the process seems to be the same. The only difference, I understand, is we probably get charged for extra work, over and above their scope for the year. Particularly if there was a procurement challenge, I know that there would probably be an additional fee for that. There is probably a bigger cost to the council, but I think the rigour remains the same.

Q68 Bob Blackman: Given that there are large numbers of private sector companies now taking public sector business, is there a need for further regulation of the private sector to make sure that fraud and other aspects are not suffered by local authorities?

Julie Gill: Potentially regulation, but there is a real need for making sure that the contract management is top-notch, and making sure that we are getting what we paid for and looking at the mechanisms for measuring that. If it is payment by result, is it a robust mechanism that cannot just become a money-printing exercise? Again, that thought into the specification and the negotiation process is absolutely key.

Lorraine Cox: Robust procurement safeguards an element of that, but I agree with Julie that contract management is absolutely key. There has been a focus historically that contract management is very much about outcomes in terms of quality, and quite rightly whether the service user is receiving what we have commissioned the organisation to deliver. A commercial approach to contract management has very much been lacking in the past. For me, being a boring accountant by trade, it is important that we say, “Are we getting value for money? Are we paying what we actually agreed in the contract price?” We have commissioned our efficiency team to do a root-and-branch review of all contracts, which is a campaign to say, “Are there any irregularities in there that we need to challenge?” We can, probably in the public and the private sector, as we call it, “let and forget”, and it is very important that we continue that process as a cycle right until when we go back out to market again.

Brian Reynolds: At the SOPO Annual Conference on 8 November, we are launching a report on good contract management. We run a programme called Productivity Advisors, where the LGA will pay for an expert to go into a local authority. By far the most common request from local authorities for this—because it is quite a small amount; they pay about £6,000—is for an expert to look at contract management. We have one particular bloke, who is not a particularly nice guy but is very good at his job, and he looked at four big contracts that Allerdale had. Allerdale is quite a small council; the population is about 96,000, but about £19 million total budget. Across those four contracts, he has saved them £2.3 million, which is a substantial amount. The whole thing about “let and forget” is absolutely right. Once you have let that contract, you have just

got to manage it really well and make sure that what you are paying for is actually delivered.

Q69 Chair: Finally, we come to the issue of skills in local government, because dealing with procurement is a very important job. Clearly, some councils have the skills; you have demonstrated that today. There are other councils out there, however, that probably have not changed in the last 10 years. If the officer was sitting here now they would not probably quite get what you are talking about and what you are doing. How do we get the worst up to the standard of the best? Is that not a challenge?

Brian Reynolds: I would have said, prior to 2010, there were lots of standard initiatives about properly qualified people and the launch of programmes, SOPO and what-have-you. We will be working with SOPO on skills, but for many councils that do not have those skills, why do they have to have their own procurement department themselves? It is so much more effective to work either with a neighbouring authority, or, if you are one of the small districts, with the big county who have got that resource, capacity and skill, and they will do it for you. That is one of the messages that we put out to councils: you do not need to spend this function; do it with someone else.

Julie Gill: I would agree with that.

Lorraine Cox: Just to add, if I may, I think it is not just about procurement experts in terms of CIPS qualification, which is the Chartered Institute of Purchasing and Supply. It is about clear leadership and clear vision, and having the right person who can change an organisation. Equally, you need the person in the post, but you also need commitment from the top table. In Halton, this has been politically driven by members who have wanted to see change. They made a commitment in terms of pulling the resource together from across the council. The chief exec and chief officers have been very much behind this to make sure that this whole change approach has rippled through the whole organisation. For me, it is very clear that you have got to make this a whole-council campaign, not just the willing few banging sticks and drums, trying to make a difference.

Chair: On that very positive note, thank you very much indeed for coming to give evidence this afternoon. I hope those of you who are travelling further north get home safely and before the day's end. Thank you very much.

Panel 2: Questions 70-112

Witnesses: **Peter Challis**, National Officer, Local Government Services Group, UNISON, and **Kerry Hallard**, Chief Executive Officer, National Outsourcing Association, gave evidence.

Q70 Chair: Thank you both very much for coming to give evidence to us this afternoon. It is our first evidence session on our inquiry into local government procurement. For the sake of our records, will you just say who you are and the organisation you represent?

Peter Challis: Peter Challis; I am the National Officer at UNISON.

Kerry Hallard: I am Kerry Hallard; I am the Chief Executive Officer of the National Outsourcing Association.

Q71 Chair: I suppose we might get slightly different answers from you; we say to witnesses that if you agree with what the other person has said you do not have to repeat it, but there may not be much danger of that this afternoon. Anyway, let's begin by looking at the potential for outsourcing to deliver savings across local government. Do you think there is a large potential, or one that you are concerned about?

Kerry Hallard: There is a multibillion pound potential, to be quite honest, and there is lots of research out there already. If I quote Dame DeAnne Julius, and the report that she produced in 2008 and recently reiterated, she sees anything between 15% and 30% savings in public sector spending as a whole. Looking at the size of the industry, we worked that out, conservatively, to be over £8 billion of savings being possible through outsourcing.

Peter Challis: We would take the view that the DeAnne Julius report is outdated, largely based on looking at CCT, and the world has changed very much since then. That does not mean that there are not things that local authorities can do themselves, and in some cases with the private sector, that will reduce some of their costs. We have numerous examples of local authorities that are looking at the way in which services are delivered, the business processes, resource utilisation, staff engagement and ways in which income can be generated, efficiency improved, and, as a result, delivering better value to the taxpayer. There are two publications, "Insourcing", and "Insourcing Update", which show how a council, working with its workforce, is able to generate a better and more appropriate service for the local community.

Q72 Chair: If I was playing devil's advocate, I might say that that insourcing potential is often realised more easily when the union and the workforce recognises that the alternative might be outsourcing.

Peter Challis: The position that everyone understands is the financial difficulties that local councils are in. For example, in Flintshire the council, working with the workforce, looked at its fleet management service, and it identified what service it was supposed to be providing, what resources it was applying, and that it did not need 44 of the vehicles. The private sector would do that too. The point I am making is that the local authority, working with its workforce, can achieve the same things as the private sector, but with two advantages. First of all, if it involves capital, the local authority will be able to finance its capital investment at a cheaper price than the private sector will. Secondly, there will not be a profit element, so that will get re-invested back into the local community.

Q73 Chair: I suppose you may have a different view on that. Perhaps you could also address the issue that is often raised—and I think it was raised—about outsourcing often being seen as a replica of the compulsory competitive tendering that we saw develop in the 1980s when it was all about how cheap you could get something, rather than the other issues of social value that we have been talking about with the previous witnesses.

Kerry Hallard: Working for the National Outsourcing Association, we represent all types of sourcing, so we do look at the value and benefits of insourcing as well as outsourcing,

shared services, and the mutuals model. We do look across all of these things. From our understanding, it is very different for every individual scenario, so it really depends on the leadership that you have got and what you are trying to achieve as to whether outsourcing is going to be the best given solution for any contract being awarded. Culture and leadership from the top is hugely important and relevant in delivering the values from the outsourcing, so a lot of it has got to come down to what you are really trying to achieve from the outsourcing in the first instance as to whether outsourcing is the right approach for you.

Peter Challis: I would add, if I may, Chair, that there is a lot of data on the efficiency gains that have been made by local authorities, and how they have been achieved. I am not sure the same is true in terms of how they have been achieved in relation to some of the outsourcing that has taken place within the private sector. We have had a catalogue of failures of large strategic service partnerships that have happened in recent months and years. It started with Bedfordshire County Council and Hyder Business Services, where a contract for 12 years let in 2001 was shut down in 2005. Sefton Council set up a contract with Capita for 10 years in 2008; it ended in September 2013. Rochdale and Mouchel Parkman had a contract for 15 years; it was let in 2006 and ended in 2011. Transform Sandwell: Sandwell Council and BT had a contract for 15 years being ended this year. West Berkshire and Amey was a contract let in 2002 and ended in 2005. There is a whole list. With these big contracts, sometimes we found later down the line that the benefits that were claimed and the savings that councillors were told they would achieve are not materialising.

Kerry Hallard: I would absolutely beg to differ with that. We have a plethora of examples of how outsourcing has delivered benefits, whether those were cost-saving benefits or a multitude of other benefits, depending what the objective of the contract was. What Peter is saying here is the main problem that the outsourcing industry has at the moment. It is an absolutely vilified industry because of misconceptions of outsourcing, what it is and what it actually manages to achieve.

If you take the Olympics as a prime example, the Olympics is something that Britain heralds as a major, major success for the country. It was all outsourcing. The only bit of outsourcing anybody knows about is G4S, because that is the bit that went catastrophically wrong. The examples that Peter is talking about are what we always hear: "This went wrong; this failed. This went wrong; this failed." There are so many examples of what actually went right and different benefits that were achieved along the way, but unfortunately they do not get anywhere near as much airtime and press as they probably deserve. There is also never enough information on why they went wrong, and applying the learning of where they have gone wrong. That is a really key point. Who is actually to blame? We were talking about skills a little bit earlier on, and at the National Outsourcing Association the views that we have got across the board from our membership base is that there is a huge skills deficit in managing outsourcing relationships.

Q74 Chair: Is that on both sides?

Kerry Hallard: Yes, absolutely on both sides.

Q75 Chair: How can we do it better then, assuming that it is not something that will not happen? It will happen at various times, so how can we do it better?

Kerry Hallard: There has got to be an overall change of mindset, which is what I said at the beginning. What are you actually trying to achieve from your outsourcing? Outsourcing is not about contract management; it is about relationship management. You are two parties getting into bed for hopefully a long-term relationship and quite often a complex relationship. You have to look at what you are both trying to achieve, so there has to be strategic alignment of your visions and what you are trying to achieve, rather than, “This is what we want. Deliver it,” in a rigid way, because that is not really happening in today’s outsourcing industry. We have matured; the industry has evolved and changed a lot.

Peter Challis: I think that, Chair, if I may say, is a very partial aspect. If we look at some of the difficulties, in Liverpool at the moment there is a big debate going on about what Liverpool Direct is providing. One of the things that came out of that has been about the relationship between the council and the company. There was an internal audit report that made it clear that the company was not sharing the basis on which it was undertaking its management accounts with the council, so the council could not see where the profits were being generated.

Just to illustrate that, the leader of the council at the time, Lord Storey, is on the record as saying he and other councillors did not have knowledge of the issues, such as the level of mark-up being levied or the profit taken by BT. That is a function of the process, because what happens with these very large contracts is that often the decisions are taken by a small group of members, and there are high levels of confidentiality. In the evidence we have supplied to your Committee, Chair, we have demonstrated that in Cornwall the scrutiny committee that was examining the big proposed contract with what turned out to be BT did not have the information it needed in order to complete its scrutiny report, and was told when it made a recommendation that, “Even if that decision is taken by the council, it is the Cabinet that will make the decision”. There is a whole set of issues that are associated with what is a very complex process.

For the legal documentation in Birmingham, the contract runs to over 1,000 pages, and I suspect that there are very few people who are on top of that contract, and in my view, that is quite deliberate. These exercises are being made very complex because the private sector is very good at that. The lack of transparency is one of the weaknesses, and it means that the taxpayer is not able to understand precisely what is going on and what value the council is getting for the arrangements it has entered into.

Q76 Mark Pawsey: I want to follow up the point that I think has been touched on, which is the capacity of local authorities to manage contracts that they are outsourcing. In the previous session, the Chairman referred to a broad variation of skills within local authorities. Kerry, you said that some authorities can manage these things well and some cannot. How can we make certain that there is good practice within local authorities, and what can the outsourcing companies themselves do to help local authorities raise their game?

Kerry Hallard: We know there is not a lot of budget for local government training, so we have put forward a paper suggesting that the supply community actually provisions for the training of the public sector, so that they do better understand what the suppliers are trying to achieve out of the relationships, but can also better relationship-manage the contracts.

We certainly believe that would be a good way forward. Also, there should be more of a repository of best practice, something I know the previous speakers touched on earlier, being more of a central framework, more best practice. We certainly have offered that as the only way to actually give a lot more guidelines on best practice, so we are actually certifying the end-user community as to how well they are managing their outsourcing contracts. Are they sub-par? Are they on a trajectory to centres of excellence, or are they actually achieving best practice? That is something we are happy to roll out for the public sector too

Q77 Mark Pawsey: When a local authority outsources a particular service, do you think they are giving too much control to the contractor without passing over the risk? Are they allowing the contractor to take too many decisions? Should more of that be retained within the contract?

Kerry Hallard: That comes on a per-contract basis. I completely agree with what Peter was saying about transparency and accountability in the world of new outsourcing, where the contracts are a lot shorter-term and more flexible. They are completely transparent, so all these examples of not sharing the visibility of the profits companies are making and all that sort of stuff has changed, as has the fact that suppliers have too much control. There is a lot more competition, multi-sourcing, service integration, and suppliers having to work together in the supplier community now, so the risk has really moved away from it being a public sector risk to it being much more a supplier-performer risk these days. That has to be a good thing overall.

Q78 Mark Pawsey: You referred to more suppliers, but in some instances there is a feeling that there are insufficient suppliers, and that means that there is not as much competition amongst these contractors as there might be. How would you respond to that?

Kerry Hallard: The number of suppliers is increasing.

Q79 Mark Pawsey: Can you tell us some new entrants into the marketplace?

Kerry Hallard: That is a good one. Obviously you have got all the Indian players that have come into the market. I know there is a fair bit of consolidation in the acquisition, but there are a whole range of new suppliers around the whole cloud offering. SaaS and the platform players are really shaking up and commoditising the market and therefore making it a lot more difficult for this oligopoly and profiteering that has previously been perceived to be going on amongst the supplier community.

Q80 Mark Pawsey: Peter, you told us about one or two of the failures, and you referred to the complexity of Birmingham's contract, which you said ran to 1,000 pages. However, we have received evidence from Birmingham that their contract with Capita will generate savings of £500 million. We have also got some evidence from Pendle Borough Council that their collaboration with Liberata would reduce their expenditure by 10%. Is it not a fact that where the problems have occurred they have perhaps been because the local authority has been insufficiently in control of the contract? That comes back to the skills deficit, perhaps, within some local authorities.

Peter Challis: It goes back to the point that I was trying to make earlier, which is that we need to understand where the savings that contractors claim have been made, and there is an emphasis on the “claim” and the “actual”, where that has arrived and how it has been arrived at, and then to ask the question, “Could the local authority have done that itself?” albeit using the skills that it does not have that do exist in the private sector.

Q81 Mark Pawsey: I think you have been pretty critical of local authorities that go out and get some consultants to manage it for them.

Peter Challis: We were critical because in that instance—

Mark Pawsey: You seem to be suggesting they should do that.

Peter Challis: In that instance, it was funded by a RIEP, and they spent £200,000 procuring advice from a company called Tribal, to advise three district councils in Lincolnshire, and UNISON produced a report, where we spent £2,000, and we provided an alternative view of that advice to those local authorities. Those local authorities thanked us for saving them money, because they did not end up going down the route recommended by the consultants, which in that case was a complete outsourcing exercise. One of the assumptions that the consultant was making in that report was that the private sector was always three times more efficient than the public sector. That clearly is not the case. There is no empirical evidence that supports that. When the consultant was asked to supply the evidence for that assertion in that report, the consultant was unable to do so, so yes, I am critical of that sort of expenditure.

Q82 Mark Pawsey: Leaving aside that specific case, for the broader issue, do you not accept that where a local authority is deficient in the skills in managing some of these things it is not appropriate, then, to go to the private sector and take some advice from consultants who know what they are talking about?

Peter Challis: One of the problems that local authorities face is that they have been losing the skills through the outsourcing process. They then become reliant on the private sector to provide those skills because they had effectively transferred them to the private sector as a result of the outsourcing process. They have done it because they have been told that they would be transferring risk. In reality, they are not transferring risk, as the evidence of the failures shows. There is a really critical question about the extent to which contracting authorities can afford to risk leaving delivery expertise simply to the contractor.

Q83 Mark Pawsey: Are you making a case for this process to never happen?

Peter Challis: No, I am not making a case for this process to never happen. Contracting is expensive, so I am making a case for local authorities undertaking regular service—

Q84 Mark Pawsey: Is it fair to say you are not keen on outsourcing?

Peter Challis: If outsourcing is the right approach, but it has to be tested.

Q85 Mark Pawsey: When would it be the right approach?

Peter Challis: It has to be tested. Local authorities need to undertake service improvement plans. They need to review the services that they are providing, and see whether efficiencies can be—

Q86 Mark Pawsey: Are you suggesting they are not doing that at the moment?

Peter Challis: Let me finish, please. They need to see whether efficiencies can be secured, they need to benchmark that against the competition, and then, if there clearly is a gap, there should be a competitive exercise. If there is no gap, and if the local authority is already doing as well as the private sector could do, then why waste the money spending large sums engaging in a costly procurement exercise?

Q87 Mark Pawsey: Is it your contention, then, that the exercise you have just described is not taking place, and there is a rush to outsourcing because it is a trendy and fashionable thing to do?

Peter Challis: I think there is evidence that would support that argument. There are a lot of authorities that, in the face of financial difficulties, have had consultants approaching them and advising them that they could solve their financial difficulties through going down that road. Four or five years down the line, they have discovered that that did not happen and that they did not solve their financial difficulties.

Q88 Mark Pawsey: So would the pendulum naturally swing back, then, if that is the case?

Peter Challis: I do not know, but if you take Somerset Council, the leader of the council, Ken Maddock—you may know him; I believe he is a member of the Conservative party—is highly critical of the arrangements that were entered into with Southwest One, where we ended up with the debacle of Southwest One, partly owned by Somerset Council, suing Somerset Council for £5.2 million. That has to be crazy, and that cannot be in the public interest or value for money for the public purse.

Q89 Mark Pawsey: Kerry, where does outsourcing work? When is it a good solution for a local authority to enter into a contract for outsourcing a service?

Kerry Hallard: The local authority needs to understand what they are trying to achieve. It is when they have got very clear goals and objectives that they can share with their service provider—with their partner—and they can work to fine-tune those together; that is when outsourcing works best. It has to be a collaboration and strategic partnership for it to work to best effect. Obviously, I agree with Peter that if the local authority does not know what it is trying to achieve out of its outsourcing, how on earth can it expect its service provider to understand that and therefore deliver it?

They can work together. We have seen numerous scenarios where the service provider will be talking to somebody in the public sector and actually decide that outsourcing is not the right thing for them. Service providers these days do not want to get into contracts where their reputation is going to be put at risk, where their share price is going to be affected and where they are going to lose revenue. I think they are mature enough to walk away when they believe the outsourcing is not going to be the right solution, so I do not believe they are just rushing in in some form of gold rush. I do believe there is a

consultative process to work out that it is the right thing to be doing. We always say, and Drucker said it, “Do what you do best and outsource the rest”. You do keep your core competencies in-house and focus on what you are really good at, but you can outsource most other things.

Q90 James Morris: We have talked about whether or not outsourcing is conceptually a good idea for a local authority. I just wanted to focus on the risks in terms of governance and propriety within a local authority. To what extent does the trend towards outsourcing potentially lead to issues around impropriety, and how do we deal with that?

Peter Challis: The Government has got some evidence itself. It has currently got the Serious Fraud Office investigating both G4S and Serco. In the newspapers at the weekend, there was an issue around a new free school, where there was a question about whether or not some fraudulent activity had taken place. Clearly, where you have got activity that is one removed from the local authority, the ability to effectively ensure that fraudulent or improper activity is not taking place is more difficult. I would add—and this was not raised by your previous speakers—that there is a real danger that is very close to the horizon at the moment, which is that the ability of local authority fraud people to investigate is about to be seriously undermined. The DWP is establishing SFIS—the Single Fraud Investigation Service—and is about to transfer 800 fraud investigators out of local authorities to concentrate on benefit fraud.

Q91 James Morris: Kerry, can I just ask you about the propriety question? What do you think needs to be done in order to make sure that we have a system where we do not have impropriety? What could be done at the council end and the contractor end?

Kerry Hallard: It all comes down to the management again. The governance frameworks that are in place in sophisticated outsourcing projects can certainly go a long way to ensuring that there is no impropriety. However, as the guy before said, if somebody really wants to be fraudulent, whether it is insourced or outsourced, they will try their damndest to do that, but we would certainly say that governance is key.

If you take something like cloud as an example, everyone has been really worried about moving to the cloud—whether it will be secure enough, and so on. We have got specialists like Amazon Web Services that have spent millions on security, so you know that these guys are specialists in what they do. There will be no chance of failures with their security, and exactly the same could be applied with outsourcing contracts when you have the right governance in place with people that really understand governance and how to manage it. They are experts in their field.

Q92 James Morris: One of the recommendations that I think UNISON has made is that there should be a requirement on councils to publish all information about contracts and the procurement process, so there should be absolute transparency. Is that a practical solution, from a commercial point of view?

Kerry Hallard: I have spoken to several members about this particular point in advance, and I think everyone is fairly open to there being more transparency. However, I think we have to understand that we are never going to please every single party and stakeholder involved in the process, so even publishing information beforehand will not necessarily

get UNISON on board with what we are trying to achieve. Sometimes it could actually make things a little bit more difficult.

Q93 James Morris: Peter, do you not want to just load up all kind of obstacles to the private sector being able to operate within local authorities? Is that not really what you are trying to achieve with some of your recommendations?

Peter Challis: No, this is all about transparency and accountability. This is taxpayers' money we are talking about. There is a quote, I think, from the Chair of the Public Accounts Committee in respect of an investigation that was being undertaken into the Work Programme, I think, where the Public Accounts Committee recommended that precisely the sort of information that UNISON is talking about should be in the public domain. It would help, because it would assist in relation to all the governance and impropriety issues. It would assist in being able to demonstrate that the taxpayer was getting value for money, and it would provide a database that would enable you to compare public with private sector.

Q94 Chair: That goes onto the Freedom of Information Act. That should apply to contractors as well, should it? That is UNISON's position, as I understand it. Kerry, do you have any problems with that.

Kerry Hallard: No.

Chair: None at all. So that would be quite okay with you.

Kerry Hallard: I do not personally have any problems with that. I cannot say there would not be a single member that did not have a problem with it, but no.

Q95 Chair: Are there some different arrangements now, though, where perhaps previously a contract was let, a contractor won it, did the service, it was monitored and there was an arm's-length relationship between client and contractor, whereas now we talk about partnerships and working together, but there is clearly a contractual arrangement, and often different financial interests from the two sides? Can you sometimes get an unhealthy process of partnership and working together that means that you lose some of this clear propriety that exists on the contractual relationship and holding the contractor to account?

Kerry Hallard: It is very difficult, and it goes back to my very first point. It is culture, at the end of the day. We have done a whole host of research on why outsourcing relationships fail, and the overriding reason for an outsourcing relationship to fail is there was no cultural alignment in the first place. When outsourcing becomes tribal, that is when it disintegrates. When it becomes "them and us", that is when your problems occur, whereas if you are aligned you do see yourself as working for the same team. That is really fundamental: when you actually see yourself working for the same team, then you actually do manage to deliver the benefits and work together. There will be problems along the way, but you are in the same team, so you constantly talk to each other and discuss an open plan of what the problems are and realign.

Q96 Chair: That is all very nice, but when Joe is having a cup of coffee with Bill, or Sue is having one with Christine—"We are all friends really, aren't we?"—do the problems

get identified? Does the contractor get put on the spot? Do they get held to account for the mistakes they made, and in the end charged for them? That cosy relationship tends to mitigate against that, does it not?

Kerry Hallard: That is where it comes to flexibility, and this is where we are feeling quite an element of non-flexible performance coming from the public sector. We are seeing contracts being pored over and cited, and that is not where the outsourcing relationship should really be going. Peter was talking about 1,000 page contracts. Our mantra at the NOA for the last five years—so we are not talking about recently; we are talking about 5-years-plus—is that you absolutely have to have a contract and negotiate what the exits will be at the time of negotiating the contract, so that is all really clear. Then the ideal is that a contract goes into the drawer and it does not come back out, because if all you are doing is having a relationship where you say, “Look at this clause of this contract; you have not done this; you have not done that,” then you have not got the partnership relationship that you really need. This chemistry—this glue—all comes out at the very early stages of negotiating a contract, whether you can really work in that way.

Peter Challis: I would say, on the evidence we have seen, the joint venture arrangements have to date demonstrated a whole range of complication, first of all because invariably the private sector partner is the majority stakeholder. If we just look at IBM and SW1, the contract was dependent upon 34 or 36 other councils signing up to potentially join it; that was the predication: “We are going to provide a service—Somerset, Taunton and Deane and Avon and Somerset Police. All the other councils in the South West will want to join.” That was part of the driver for the business plan, and no one else joined. No one else joined partly because the contract ran into difficulties over the implementation of the SAP computer system. It is still not resolved today, even though it was started in 2008. The contract was built on ever-increasing revenue streams, and then the Government cut local authorities’ budgets, so Somerset worked out that, once they were agreeing to £70 million of “savings”, that would trigger a big payment to IBM, so Somerset have not agreed to a whole set of savings that would deliver that £70 million figure because they know it would cost them another big sum of money.

IBM have now provided a loan of £41 million, because that contract lost £31 million two years ago, and lost £8 million last year. These arrangements are fraught with difficulties. If the National Outsourcing Association can provide us with the example of the one that works, we would like to see it, because we have not seen one yet, Chair.

Kerry Hallard: Yes, NHS shared business services with Steria. That has been a very successful project. Last week we had our awards, and the Public Sector Outsourcing Project of the Year was won by HMRC for one of the many projects that it was running that has already delivered a £200 million saving. Someone mentioned Liberata a little bit earlier. Liberata won our Shared Service Centre of the Year award because of this virtual shared services model that they are bringing to councils, where they have already got 120 local councils connected and using their capacity grid—their virtual shared service centre—that is delivering £500 million of savings. These are just fragments; there are so many examples that hit the press of when outsourcing fails, but I can assure you that there is a pile of examples that show when outsourcing actually works. A mechanism to share the learning and successes would be beneficial for all; at the moment that does not really exist.

Q97 Bob Blackman: Moving onto employment terms and conditions that are for people that work in either outsourced services or shared services, particularly in back offices, Peter, what evidence have you got that employment terms and conditions worsen as a result of a contract being outsourced?

Peter Challis: There is a whole body of evidence that outsourcing has led to two-tier contracts.

Bob Blackman: Two-tier contracts in what respect?

Peter Challis: In terms of the terms and conditions of employment. Some of the business models are structured on being able to turn over the staff and employ new staff on poorer terms and conditions and with less pension rights. That is one of the business models that is out there. We have provided you with evidence in our submission about Calderstones Partnership NHS Trust, which set up a community interest company with the sole purpose of transferring its contracts to a community interest company and then not complying with TUPE, and cutting people's pay. There is a major dispute going on in the North West of England at the moment about a contract that Calderstones have with Future Directions, which is the name of their CIC, where that company cut the pay of its staff by, on average, 25%. The minutes of their board meeting say that the reason they set up that company was because NHS pay rates were not affordable, so it is quite clear that some of these arrangements are being used to change terms and conditions.

At the top end of the spectrum, in terms of the people that are running some of these organisations, I think I might agree with Eric Pickles. I do not often agree with Eric Pickles, but it is unusual to see the Government not commenting on the sorts of salaries that are being drawn by people at the top of organisations that are running, in some cases, half a local authority, or a third of a local authority, in terms of the range of services that are being provided. Outsourcing may well have done very well for some of the people at the top of the organisations, but we have a lot of evidence that shows that in terms of—

Q98 Bob Blackman: Your evidence is that TUPE is not very effective in terms of preserving employment rights; is that correct?

Peter Challis: TUPE is effective insofar as it goes, but as you well know, TUPE has its limitations. UNISON's view is that we always seek TUPE plus.

Q99 Bob Blackman: What extra protections would you seek?

Peter Challis: We certainly want to see ways of avoiding the development of two-tier workforces—in fact multi-tier workforces, when you think of all the subcontractors that are sometimes involved. We would certainly want to strengthen the position in relation to pension rights. We would want to avoid the use of zero-hour contracts, obviously.

Q100 Bob Blackman: I am going to come onto that in a minute. Kerry, what evidence is there that people actually benefit from being in outsourced companies in contracts? There are examples, as Peter has alluded to, of poor management in that respect. What about good management of outsourced contracts?

Kerry Hallard: The overall research we have got, and I cannot remember who published it, is that people—not going through the TUPE process themselves, because we do not

speaking to them when they are going through the process, but after they have been through the process—are on the whole more satisfied with their current employer and more confident that they are delivering a better service to the taxpayers. I think that one sentence speaks volumes. It is again something that we are doing at the NOA; we constantly are going back to the employees and actually understanding how satisfied and motivated they are post TUPE. We do make sure they are looked after. I cannot say there is never a victim. There are scenarios where, post-TUPE, there are requirements for change, and I am a big advocate for making sure that the people are managed well.

Q101 Bob Blackman: Peter, just to come back on one issue that may be relevant to your members, we have had evidence that suggests that people that have been outsourced, and therefore in a protected environment with a contract for supply of goods and services, suddenly find themselves in a position of being better off in terms of employment than people in local authorities, who are suffering, as we have heard, with reduction in resources, and therefore the employment suddenly reduces quite radically, and a lot of people that decided that they did not want to go into an outsourced company suddenly find themselves unemployed. What is your view on that?

Peter Challis: Their position is dependent upon the contract that that company has. It is a bit like the debate about co-ops. People are promoting co-ops, but the co-op is only going to last as long as it continues to win every contract that it has to seek to tender for. I think the answer is, “How long is the contract?” in terms of the security that people might have about their employment. Of course, if they are not in that continuous contract revolving-door position, their position is much better. You end up with all sorts of issues in relation to employment. If we take what is happening in Barnet at the moment, where Capita have just won the contract, Capita have just said to a significant number of Barnet workforce, “By the way, we are transferring your work to Southampton”, for example. In effect, those employment opportunities are being removed from the Barnet locality, and that is a consideration that needs to be made in relation to the letting of the contract, so there are all sorts of issues.

Q102 Bob Blackman: Looking at zero-hour contracts, obviously that is a concern from the union’s perspective, which I can understand. It is a controversial area in the current position. Is it more widespread in the public sector or the private sector?

Peter Challis: There has been quite a lot of press coverage. There was a local authority that had 2,000 zero-hour contracts. I think when we drill down into that, we are going to see that quite a lot of those were supply teachers and bank staff. I would suggest that we need to differentiate between those arrangements and the zero-hour contracts that are being run in an exploitative way.

Q103 Bob Blackman: You draw distinctions between certain areas where it is reasonable to have a zero-hour contract, and others it is not; is that it?

Peter Challis: No, it is applying the blank label of zero-hour contracts to a range of employment arrangements. There are some that are exploitative. If you are a supply teacher and you are saying to a school, “I am available for work”, I do not treat that as a zero-hour contract, because that person is equally able to ring up the school and say, “I am

not available to work for the next three weeks because I am going away with my partner”. There is a difference, but there is growing evidence, particularly in the care sector, that zero-hour contracts are on the increase. That is damaging for the service and for the individuals that it is affecting.

Q104 Bob Blackman: Kerry, how widespread are zero-hour contracts in the private sector?

Kerry Hallard: That is not an element that I really deal with. The outsourcing we deal with is much more IT and business process outsourcing, and this has not become a really big hot topic for us.

Q105 Bob Blackman: Where your members have won outsourced contracts, they are not using zero-hour contracts to manage their costs and therefore increase their profitability, for example.

Kerry Hallard: I will not say it is not happening at all, but it is certainly not an issue that we are dealing with. We see them more being on the employment contracts. Just going back to a point, if I can, that was made just before, we are just in the process of agreeing an agreement with Capita to actually train 16,000 of their life and pensions employees on how to deliver outsourcing, so it is going back to that whole TUPE transfer side of things. Some companies in the private sector are really trying to make their employees feel that there is a future post TUPE, and developing them and giving them good career progression. I just wanted to get that point in.

Q106 Bob Blackman: The other area that has been controversial, particularly in outsourcing, has been blacklisting of employees. What is the UNISON position?

Peter Challis: We are opposed to it.

Bob Blackman: I am not particularly surprised, I must say.

Peter Challis: We think the Government should be acting more strongly to deal with the issue.

Q107 Bob Blackman: What do you think the Government should do?

Peter Challis: When we think about how long it has taken to get the current case into the courts and settled, that is a disgrace for any civil society. UNISON thinks the Government should be revisiting that issue and looking at what steps can be done to make that a thing of the past.

Q108 Bob Blackman: Do you think that firms that are found to be responsible should be banned from working for local authorities?

Peter Challis: It would be for authorities to take that into consideration when they are letting procurement contracts, in just the way that I think local authorities should be able to take the extent to which companies might be seeking to avoid tax in this country into account. UNISON thinks that that should be a factor in making procurement decisions,

and whether or not companies are abiding by country-by-country reporting or something like that, or whatever the recognised international requirements are for good practice.

Q109 Bob Blackman: Kerry, what is your view on the blacklisting of potential employees?

Kerry Hallard: It comes down to the reason for the failure, which is paramount, really. If the failure has come down to some form of incompetence on the supplier's behalf, then that needs to be dealt with. There has to be fairness in hearing as to what has actually caused that—not a blame culture, but understanding on both sides why the failures have happened. It is not fair to castigate somebody for something that might have been completely out of their control.

Q110 Bob Blackman: When you say completely out of their control, how would it be out of their control? A firm may choose to blacklist certain lists of employees or potential employees. That is a decision that they make, and presumably is made by directors of a firm.

Kerry Hallard: Sorry, I must be misunderstanding the question. You are talking about blacklisting of employees. Sorry, I thought you were talking about black-spotting some service providers.

Bob Blackman: No, particularly of employees.

Kerry Hallard: Okay. I do not know.

Q111 Chair: Finally, once they have moved into the private sector, firms will treat their employees differently. Do you think it might be a good idea, right from the beginning, when a tender is put in, if firms were asked to be absolutely explicit about what their approach would be to terms and conditions for existing employees who might transfer, and for employees in the future?

Kerry Hallard: I think that would be fair, yes.

Peter Challis: I think we might be able to tell that, Chair, if we had sight of the business plans.

Q112 Chair: That leads onto the issue of transparency, which no doubt this Committee will give consideration to in due course.

Peter Challis: If the business plans are explicit about what the future expectation is in relation to employment costs and employee numbers, then it is possible, as part of the discussions that take place prior to the letting of any contract, for the employees' representatives to have a discussion with the employer about the basis on which they are bidding. It may be that we would change their minds. The problem we have at the moment is that we do not get to see the business plans, and the public does not get to see the business plans, so no one understands the basis on which the bid is being constructed, and the assumptions that underlie it.

Chair: I probably was not taking the question quite that far down the road. I was merely indicating that this could be information that could be transparent and easily made available to those who are going to make decisions about the contract in its widest terms.

Peter Challis: Yes.

Chair: Thank you both very much indeed for coming along to give evidence this afternoon.

