



Communities and Local Government Committee

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

Monday 18 November 2013

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Written evidence from witnesses:

Panel One:

- [Federation of Small Businesses](#)

Panel Two:

- [Yorkshire Procurement Organisation](#)
- [Sheffield City Council](#)
- [Cllr Jack Scott](#)

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Members present: Mr Clive Betts (Chair); Simon Danczuk; Mrs Mary Glendon; Heather Wheeler

Panel One: Questions 279–303

Witnesses: **Gordon Millward**, Chair, South and East Yorkshire Region, Federation of Small Businesses, **Stephen Williams**, President, Sheffield Chamber of Commerce, and **Ian Drayton**, Chair, Sheffield Third Sector Assembly, gave evidence.

Q279 Chair: Welcome, everyone, this afternoon to the Communities and Local Government Select Committee. This is our fourth evidence session in our inquiry into local government procurement. We have already had sessions in Westminster. This is the first one that is being held outside Westminster. We would like to thank everyone who is coming to give evidence today from Sheffield and the wider city region. Also, we would particularly like to thank Sheffield City Council for acting as our host and making all the arrangements for us. Before we begin, it is appropriate that members of the Committee should put on record any interests that may be relevant to this inquiry. For a start, therefore, I am a vice-president of the Local Government Association.

Simon Danczuk: I am Simon Danczuk, MP for Rochdale. My wife is a local councillor, as is my father-in-law.

Mrs Glindon: I am Mary Glindon, MP for North Tyneside. My husband is a councillor in North Tyneside.

Heather Wheeler: I am Heather Wheeler, South Derbyshire. I am also a vice-president of the LGA and former council leader. My husband is now council leader in South Derbyshire.

Chair: Could we invite our first couple of witnesses to come up to the table? Just to start off, if you could, as witnesses, say who you are and the organisation that you represent, that is helpful for our records.

Ian Drayton: My name is Ian Drayton. I am the Chair of Sheffield's Third Sector Assembly.

Gordon Millward: I am Gordon Millward, Chairman of South and East Yorkshire Federation of Small Businesses.

Stephen Williams: I am Stephen Williams. I am the very recent President of the Sheffield Chamber of Commerce and I have to admit to, many years ago, being at school with Clive.

Q280 Chair: I did not like the "many years ago" bit, but never mind; we will move on from there. Gordon and I have past history as well: we stood against each other in parliamentary elections. Just to begin with, it is about trying to find out what is really happening on the ground, what your concerns are, what is going right and what is going wrong. Obviously, councils throughout the region have been challenged by reduced budgets. In terms of their procurement approaches, and from your perspective, how do you think they have adapted to that? How do you think they have been doing from your point of view?

Gordon Millward: The problem with it is, it is such a large thing. The councils are under tremendous pressure at the moment because of the cuts, which are being forced on part of the country at the moment. They are doing a lot of good. In the local Sheffield Council, there are business meetings where they meet business representatives etc, but it does not seem to be getting over on the procurement side.

There are a lot of small businesses. Already this might be out of date now, but on the PQQs, they simplified that procedure. It was 34 pages of information as to what small businesses had to do, which is something that put off a lot of people who could supply at the right price to give the benefit to the council. The Federation of Small Businesses set up from south and east Yorkshire the Keep Trade Local campaign, which is something that I really believe in. This was after the floods when everything was done by outside contractors and local people did nothing. Keep Trade Local goes along with the council procurement procedure in trying to involve as many local people as possible.

I have read through this document very swiftly, which I have been left by the Local Government Committee. I have not had real time to take it in fully, but a lot of the things—the works department, the transport police and all that side—are now going to one supplier. They are not getting the benefit where perhaps half a dozen individual suppliers or specialists—for example for vehicles: tyres, engines, electrical, body work—can get a

better deal for all of the councils. The price that is paid at the moment to one supplier, who buys from a lot of those other suppliers who would rather supply directly, is practically doubled. You could have a small item worth £10 but be paying £20; you are paying for having store staff, which you already had, in places to do your work for you. You are paying 18% to have those to organise your payments on an annual basis. The inclusion of more things that bring in small firms, an easy way to get into the directory and better advertising so small firms can pick up that point would save the council quite a bit of money on the procurement side.

On the European issue, this goes on to the large business. Those over £250,000 have to be advertised. I do not see many large contracts going out of France or Germany to other countries. We ought to really think a bit more in this country what the benefits are. The benefits to small businesses and other businesses would then arrive by having those built in the UK. We gold-plate European targets too much, and we are not going back to what the people of this country voted for, and that is a European trading community—

Chair: I do not think we can get too far—

Gordon Millward: That is a political issue, sorry. Contracts under 20K to be awarded: there is the possibility to award them by just three phone calls to three suppliers who have got on the list because we have improved it. If it is a small job to be done quickly, it can be done then and most likely it will be financially beneficial to the council.

Stephen Williams: I am fairly new to procurement and these issues, even though I know quite a number of our members are involved or have been involved in the past. I have been President for a couple of weeks. I am trying to get to grips with some of these things and, once I knew that I was attending today, I put an email out to our members. I have had a number of responses from them. What I am saying really is about what they have had to say.

Generally, there are a number of feelings out there. One is that there is a lack of commitment to a local supply chain. Secondly, as Mr Millward has just said, the PQQs are too complex and take too long to resolve, so that many firms are put off from entering into them. It seems to be that people, companies and organisations from outside the area seem to have a better opportunity of obtaining procurement contracts, mainly because they do not have any conflicts of interest or for some other reason.

Q281 Chair: Can you give an example of that?

Stephen Williams: I can leave you with these notes if they would be helpful. .

Chair: It is quite a serious accusation to say that somehow an organisation from outside the area has a better chance of winning a contract than a firm from inside.

Stephen Williams: I am merely repeating some of the things that have been said to me. I am quite happy to leave the notes and the copies of emails that people have sent. Whether that is actual or it is people's impression, I am not certain.

One of our members was concerned about the major roads initiative given to Amey, seemingly despite very little of the subcontract work beneath it coming locally. One of my members was saying that he knows of an organisation that set up a local office to be

able to be deemed to be local. Again, the details are in here and I know they will be happy to share those.

I concur with what Cllr Jack Scott has said at the end of this report. Again, just seeing this for the first time today and talking with Barry earlier, it does seem that the PQQ system may well be being altered to make that a lot easier, which would be beneficial to my members. What we need is closer engagement between the FSB and the Chambers and local procurement, so we can make sure that all our members are aware of what the processes now are.

Ian Drayton: I wanted to make a comment based on the experience of members of the third-sector organisations across the city and also my personal experience running a social enterprise in the north of the city called SOAR.

There is a disease about at the moment called “tenderitis” and we are all suffering from it. It is nice that the local authority has gone down that route so that it is open and transparent, but I have lost count of the number of PQQs that organisations have filled in, quite often sending the same information in, to get on to different frameworks. There is a degree of rationalisation and tidying up that can be done there.

The other requirements that they are placing on organisations to get on the select lists are too high for a lot of small third-sector organisations, who are now being disadvantaged. The contracts that they have had in the past two or three years they are not able to access at the moment because of the way the tenders are being run. It is also prescriptive in the way that organisations like the Skills Funding Agency operate; they only allow certain levels of subcontracting. Subcontracting to small neighbourhood-based community organisations you cannot do under SFA funding rules. There are probably some issues here to be looked at nationally about the level of subcontracting that is allowed.

The other thing I have noticed in the local authority is, because the smaller groups are being disenfranchised as a consequence of this, the local authority are uncertain whether or not they want to support consortia to put bids in and then subcontract. There are mixed messages within the local authority. Sometimes they think it is a good idea and sometimes they think it is not such a good idea, so there are inconsistent messages coming back from the local authority in respect of that.

There appears to have been a significant drive away from the use of grant funding to third-sector organisations, despite the fact that a grant is a contract, but the procurement process is significantly different. That seems to be like an anathema now; you have to go through a competitive tendering process. That seems to be a one-size-fits-all agenda, irrespective of the nature of the work being procured.

In relation to the commissioning process, there appears to be some confusion about at what stage you can speak to either existing deliverers or potential deliverers in relation to helping the local authority think through what exactly it wants to buy: “We have bought this in the past but is this now fit for purpose? Should we not look at having conversations with people who are delivering it about things that have worked well and the things that have worked not so well?” Then they can go away in camera and work out what they want to buy. That is really unclear about whether they can engage or not. That is a bit of

a concern because you are not getting the benefit from those people who are delivering the contracts: the things that have worked well and those that have worked not so well.

It is linked into a common language set at the moment about co-design and co-production and all of this kind of stuff, which seems to be the flavour of wherever you talk about that, whether at a national or a local level. If you are not allowed to speak to people who are in a position to deliver, how can you co-design, co-produce or co-commission? There is a strategic disconnect there; you want to co-design, co-commission and so on and so forth, but you cannot speak to those people. It is a bit of a strange situation to be in.

The other thing for the third sector is the timing of the way the contracts come out. I know that money is exceptionally tight and we live in unprecedented times, but what we are now witnessing in the third sector are contracts that are coming out midway through the year, so you have four or five months to deliver a particular contract, which potentially means that you are not delivering it in the best way you think fit. I do not know whether that is to do with the way the national Government lets the local authority know what its budget is. I am not really sure where you point the finger in respect of that. However, it means that, for example, in my own organisation, for the last two or three years, we have delivered a job club, which normally starts about August or September time, but then the contract ends at the end of March. How do we bridge that gap, because people still need that service? That is just one example where we have had to use our own resources to bridge that gap in the interests of maintaining a service to the clients out there.

The other thing is about the contractual side of it. We go through the process. We are given tenders. We then need to get up and deliver it because the contract period is quite tight. However, the contracts are often quite slow in arriving which, in effect, means that the third-sector organisations are cash-flowing the local authority. When we get the contract, we want to deliver it because time is tight, so we do not have a choice. We have to employ people and cash-flow them, because contracts are slow in arriving, and sometimes the purchase orders are just as slow as well, to speed up the payment.

My last observation is about the way a lot of the contracts are managed. There are some exceptionally anal people in the council who have phenomenally large bits of data that they want us to collect and are very prescriptive as to exactly how we should spend the money delivering the services. We spend a lot of time gathering data. I am not convinced that that data has any use or is analysed when it gets back to the local authority. As a sector, we would like to see a move towards broader-based outcome commissioning. You give us the outcomes that you want to achieve and then we will use that resource as we see fit to deliver those outcomes. Generally, speaking to people in the local authority, they are positive about that but they do not know what the mechanism could be because they think it will be extraordinarily complicated to commission outcomes-based contracts.

Q282 Mrs Glindon: I want to ask something about collaboration. Do you think there is scope for more collaboration by your local authorities, either with each other directly or by using procurement organisations, to achieve economies of scale?

Stephen Williams: Yes, I do not have any doubt that collaborating and talking together would assist in that. If you are talking about the individual organisation which will then transmit that to its own members, or however it will deal with that, then yes, I think that would be a very worthwhile thing.

Gordon Millward: You could take it down slightly from that: that there is a list of people available to all organisations under the umbrella of the council, whom people know they can get in touch with, especially locally, to try to keep that endeavour that the council are doing. There is a lot that the council is doing correctly at the moment: working with the apprenticeships and things like this—which is all in the procurement at the end of the day—with the local suppliers. Sheffield Council has led on this, with 100 apprentices, and now 300. There is stuff like that that is really working, but it still worries me slightly that, if you start going too wide to get the supplies, you end up not getting the best price for the council and not getting the actual experts who can work on your behalf to get better prices from the manufacturers and suppliers, which does then add up to quite a saving.

Ian Drayton: As a sector, we are always keen to collaborate and work in partnership with whoever shares our agenda. For local authorities, it is the same. However, it has been a bit hit and miss. For example, there was a paper that went to the cabinet about three or four weeks ago about adopting the social model of health as a way of reinventing or re-describing what the Healthy Communities programme is all about. However, there was no conversation had with anyone in the third sector who had been delivering that. Sometimes they want to work with us and then other times they do not. There does not appear to be a rhyme and reason as to why they do it sometimes and why they do not do it in others. There is a degree of inconsistency across the piece.

Q283 Mrs Glindon: Can I ask you all how you would feel if Sheffield did decide to procure its goods and services mostly through a centralised body, whether it be regional or national?

Gordon Millward: I totally disagree with it because the larger you get, the more administration, the more staff and the more costs, which have to be passed on. As you get larger and larger, especially in the council's situation where they need specific things, even batteries or tyres for vehicles, if you start going wider, you tend to have a lot more costs there. It would cost a lot more having that. That is a type of thing where you need to keep things down more to a local supplier, with two or three suppliers on every item. I know it means more going back to what it used to be, but there again, we are after savings for the council. The bigger you get, it always costs more, and costs up to 100% more than it would by going locally and using your own council staff, whom you want to keep employed, to do that.

Ian Drayton: I would make an observation on that, looking at the way national Government procures. Take the example of the Work Programme, where they have split the country down into regions and have gone with primes, so presumably they will get it cheaper because they are having tendering negotiations at that level. However, it means that at every stage of the sub-contracting process, someone takes out a 10% management slice. By the time it comes down to the bottom end, there is less money available to be spent on direct delivery, which is the point about the closer you can procure it, the better, and the fewer slices are taken out in management costs.

Stephen Williams: I would concur with that. I can see certain benefits to larger scale contracts and work that councils want to do; it may be better for them to come together as a number of councils to procure for the whole of those councils. Certainly, however, more localised procurement is preferable for those lesser items.

Q284 Simon Danczuk: I am a bit surprised, Gordon and Stephen, from what you were saying earlier about the need to buy local and everything else. Why not leave everything to the free market? Before you answer, it is almost as though you want state interference. It is although you want some sort of central Kremlin control that is deciding that contracts should go to local firms. Why cannot anybody bid from anywhere to get the best value for local council taxpayers?

Gordon Millward: You live in another dimension. We are definitely not saying that.

Q285 Simon Danczuk: You are trying to say that the council should specify where it buys stuff from. It has to buy local, you were saying. Why can it not buy it wherever it can get it cheapest?

Gordon Millward: For example, the local council has contracts in London. There are local suppliers in this county that can supply the same product at the same price. They buy it from London. It travels up from London; there is a green aspect there. They send the old parts back, which they have to do, where they could get them locally. They all come from the same source, which is London, but the local buyer buys them in a large amount. They are going to have the same supply of the product locally, although it does not come locally, and there you are keeping the price down, the carriage down and you are keeping people employed in the area. That is why I say “buy locally”.

You cannot buy everything. Things go out to tender. They go out to tender locally. If there is a preference towards a local tender because it is local, its administration is easier, you can get in touch with people here and it is the same price, then we would recommend you buy local.

Q286 Simon Danczuk: Why not leave it to the market to decide?

Gordon Millward: The market does not get the option.

Simon Danczuk: They put the tender out and whoever wins it wins it.

Gordon Millward: Yes, but if somebody wins it down in London, and they win it in Sheffield, and there are all the transport costs and the ongoing costs to that, you are losing out on it. They will have to be charged. Whether you get an inferior product, I do not know. The best product is needed for the job for the council. There again, we must make sure, because we have the north-south divide as it is, we keep some of the business in the north. Let’s try to improve things for the north and let’s get business here. We will not do it if we are spending elsewhere.

Q287 Simon Danczuk: Stephen, the Chambers is obviously in favour of the free market, is it not?

Stephen Williams: Of course it is, but the cheapest price is not always the best price and there are a lot of other factors to take into account. The local authority is always keen to encourage local companies to employ and occupy land, buildings, offices and so on. Obviously, it will help them and the local authority if those companies are able to employ more people and be able to pay more business rates.

Q288 Simon Danczuk: Ian, over the last five years, do you think processes in terms of tendering out work from the council have got better or worse for local firms and charities?

Ian Drayton: Overall, they have got better. It is now clear and transparent. Most of the stuff goes through YORtender. From the point of view of there being clarity behind the process, I definitely agree. It has become administratively more burdensome to fill in the PQQs and the tender forms and stuff like that, but at least the process is clearer now. I am convinced that, in the past, contracts were let in extremely strange and nefarious ways that we did not get to hear about. At least there is transparency now, but there is a significant burden on filling in a PQQ.

Q289 Simon Danczuk: There is still more to do. Briefly, has it got better or worse, Gordon?

Gordon Millward: It has got better and the local council are doing a better job with low resources. They are working along with the business community. We have the business committees. They are working along with the local colleges for the training and apprenticeships so yes, it has definitely improved. However, we are worried that the council is under-budgeted and needs every help it can, and that can be helped by buying local.

Q290 Simon Danczuk: I know you have not been President long, Stephen, but what is your general view from what you hear? Is it generally better or worse?

Stephen Williams: What I have heard today and from talking a little bit earlier is that things are going to get better. There are things that we can do collaboratively that will ensure that happens.

Q291 Heather Wheeler: Some of you have touched on this already, so by all means be as brief as you like. What evidence do you see that your local councils are using procurement policies and practices to deliver local economic, social and environmental objectives?

Ian Drayton: There is a contract that we have recently secured, the key support worker contract, which is part of the Building Successful Families brand in Sheffield and the Troubled Families brand at a national level. It was interesting the way that they weighted elements of the tender. They were interested in contracting organisations that had significant networks in the areas where the contract wanted to be delivered. To some extent, that put national charities at a significant disadvantage in trying to get that, because they did not have those local networks and contracts. Having said that, it is a positive thing, but the local authority could make much better use of the Social Value Act, I must admit.

Gordon Millward: I am not so involved on that side; I will be quite candid. It is more for the small businesses and employment. The social side, and the side that you are referring to, is part of the community. I would rather it be by local organisations that have the experience of what is going on.

Stephen Williams: I am not able to comment on that not having seen enough of it.

Q292 Heather Wheeler: Do you think the council ought to be placing more of an issue on social contracts, whether it is, "To get this contract, you have to have X number of

apprentices”, or “To get this contract, you have to employ X number of young people who have been out of work for so long?” Any thoughts on that?

Ian Drayton: In theory, yes. That would potentially add costs to the tender, though, so that must be factored in, in relation to the amount of money you want to pay. You cannot pay more and more money. The challenge is to ensure the balance is right between those two: the amount of money available and the social outcomes that you want.

Q293 Simon Danczuk: Specifically, what support are local councils putting in place to help microbusinesses bid for contracts? Do you know any examples?

Gordon Millward: Yes, they are putting in support: better websites to see what is available. They work along with us. We have a weekly newspaper and, if the council wants anything putting out that they would like to follow on, we put it out to 6,000 businesses. We have that contact and we are working with the council. On apprenticeships, it is exactly the same. We are supporting local MPs and everybody else: the local colleges, which are excellent, and the academies that are coming on now. It is a strong part of the local environment to create the city that people can work from. The more business in the city, the more rates, as we mentioned earlier, the better for the council, especially when the new rating comes and they receive the business rates.

Stephen Williams: There is a certain amount of historical disdain for what has happened in the past and somehow, with, dare I say, a new era of collaboration coming about, we need to get that over to our members. Certainly, we have 3,500 members who we can keep updated. We have on our website a tendering page that we could make use of in some way and encourage perhaps more of our members to try and go ahead with some of the, hopefully, now three-page PQQs that might be coming out.

Ian Drayton: Local authorities do have a variety of sessions to which they invite people along to help tender writing and all that sort of stuff. The jury is out as to how effective they are, though. There is an organisation that has recently been set up in Sheffield called Sheffield Cubed, a third-sector consortium organisation that gets larger contracts and then subcontracts. I am a director of that. We have been able to subcontract with organisations that probably would not go through the local government procurement process. As I mentioned earlier, there is a tension there between the costs of setting up that consortium and the management costs if you are going to subcontract. That is another circle that needs to be squared.

Q294 Simon Danczuk: Finally, has the local LEP helped in terms of local procurement at all?

Gordon Millward: The local LEP, in my opinion, is a disaster. They are 39th out of all the LEPs. They will not conduct themselves in any way with small business. The answer to our questions by the LEP—I may as well be candid about it—was that small businesses have had too much money spent on them; apprenticeships have had too much spent on them; all the money the LEP want to put forward in the Sheffield region is to advance manufacturing and high-tech.

Q295 Simon Danczuk: They have not helped in terms of local procurement, then.

Gordon Millward: No. If you go just over the corner to Hull, they work completely with small business and they are right up in the list of LEPs. The Government's policy is that to work with small business is the way forward. The local LEP's policy—I will be quite candid—is totally against it.

Q296 Chair: Ian has mentioned already about the transparency of the process. Are you all quite comfortable that the process that the council here and, indeed, local councils in general are going through is open, transparent and would pass any reasonable standards of probity as well?

Ian Drayton: I couldn't comment. I have never looked behind the scenes, but we did call in a contract in the summer that we were not successful for, and they went and checked it. There was a mistake, a formula error, in one of the spreadsheets that they used to calculate the score. It does make you think, "Well, we only called one in and we got a hit on that". I cannot comment any further really.

Gordon Millward: There is a long way to go before we get the right adaptation in procedures so that small businesses and large businesses can get to the end and get the supply route going. The council are working very hard on this and I congratulate them on what they are doing, but there is more to do.

Stephen Williams: It is clear that the intention is to be transparent and open about that. Time will tell as to whether that will improve matters.

Q297 Chair: Have you seen any examples of the abuse of market power by large contractors, maybe fixing things together so that they win in turns? Has that sort of issue come up at all?

Gordon Millward: Not personally. The only thing is that, on the power situation, the councils are saying that they must pay their suppliers at the same time. The advice from councils in certain ones, like the major building and road ones, is work through those suppliers. But, there again, sometimes it makes you wonder what really happens.

Q298 Chair: We were told that the council pays its suppliers within 30 days, and they are supposed to pay their smaller subcontractors within 25 days.

Gordon Millward: That is absolutely what is said by the local councils, including Rotherham and Sheffield. If it is kept to, then it is ideal, because small businesses suffer from larger businesses not paying them and making the extra revenue from it.

Stephen Williams: I cannot comment on either of those.

Q299 Chair: Is there any more information during the contract process that would benefit your members? Is there anything they ought to be privy to? Is there a concern, on the other hand, by organisations going into the tendering process that, for their own sakes, they want to keep commercially sensitive things to themselves, and do not want their competitors to know? You can represent all of your members but, in fact, some of them will be in competition with each other, won't they?

Stephen Williams: Indeed.

Gordon Millward: As long as a fair contract is put out—the requirements of the council and what they really require—then it is up to the individual companies to put in a price on that. There is nothing wrong on that side. I do not believe there is any mismanagement or misconduct by the council at all.

Ian Drayton: The only thing that I have found unusual—more feedback around unsuccessful contracts—is not the price, because obviously that is commercially in confidence and stuff like that, but other things about how we are benchmarked on certain categories against others. Surely, the point should be, we need to improve on how we develop our tenders. If you do not get the feedback, it is very difficult to improve. When you interview people, you give them some feedback about their interview so that hopefully, next time, they are better. Local authorities should be smarter about that.

Q300 Chair: Of course, quite a lot of contracts are not awarded on price alone; quality is an important element, so getting feedback on that would be useful. Finally, if you had one recommendation to make, through us, to central Government about how they could change their policies and practices to allow local authority procurement to become more effective and efficient, what would you be saying to us to pass on to Government Ministers who are going to come and see us, in due course, about this?

Stephen Williams: I would ask them to give a higher scoring level to local businesses.

Q301 Chair: That is something that local authority could potentially do. Does it need central Government to do that?

Stephen Williams: It needs central Government to encourage them.

Q302 Chair: Is there one change of an actual rule or legislation that you would want to see?

Gordon Millward: More legislation means more problems. It is less legislation that will help small business. The recommendation from myself would be to cut out a lot of red tape. Let the local councils get on with the job they are doing representing their people. It is red tape and controls.

Q303 Chair: Is there any specific bit of red tape you would like to see cut?

Gordon Millward: Most of it. It is difficult to say. I do not know the restrictions that are put on the council, not being in the executive of the council, but I should imagine there are a lot of restrictions that we do not see as business where we think they are making a mess of it but they are not really; they are following what they have to follow. There are restrictions to councils to give them the go ahead to get on with the job to do the best they can for the area.

Ian Drayton: It is this thing about procurement legislation. When you are in the process of commissioning, or before you are thinking about commissioning, when can you have conversations with people who have delivered in the past, or who might be interested in delivering in the future, that could help the local authority think through what it wants to purchase next time. I do not know procurement legislation, but I bet it is a right minefield. Everybody probably struggles with that. With some clarity about when it is okay for local authorities to have conversations with people who have recently provided a service or are potential new providers for that service, they can then go away in camera and be clear

about what they want to buy. That is a really grey area. Significant opportunities are being missed. Why not use the intelligence and knowledge being gained by people who have been providing a service? What is not to like about that?

Chair: On that point we will conclude this part of the evidence session. Thank you all very much for coming and giving evidence to us.

Panel Two: Questions 304–333

Witnesses: **Simon Hill**, Managing Director, YPO, **Paul Smith**, Procurement and Supply Chain Director, YPO, **Barry Mellor**, Director of Commercial Services, Sheffield City Council, **Cllr Ian Saunders**, Cabinet Adviser for Finance and Resources, Sheffield City Council, and **Cllr Jack Scott**, Cabinet Member for Environment, Recycling and Streetscene, Sheffield City Council, gave evidence.

Q304 Chair: Thank you very much for coming, our second panel this afternoon. For the sake of our records, if you could say who you are and the organisation that you represent, that would be helpful.

Paul Smith: I am Paul Smith. I am Procurement and Supply Chain Director at YPO.

Cllr Scott: I am Cllr Jack Scott. I am the Cabinet Member for the Environment, Recycling and Streetscene in Sheffield City Council.

Cllr Saunders: I am Cllr Ian Saunders. I am Cabinet Advisor for Finance and Resources at Sheffield City Council.

Barry Mellor: Good afternoon. I am Barry Mellor, Commercial Director for the Council.

Simon Hill: I am Simon Hill, Managing Director of YPO.

Q305 Chair: Thank you all for coming. It is quite a large panel so I will just say at the beginning that, if you are in the same organisation and a colleague has already said something that you agree with, you do not have to repeat it. That just helps us get through and make sure we catch our train. We all have tickets booked on the 3.47, so we have to leave here at 3.25; that is just setting the framework for us.

To the council, to begin with, clearly, we are talking to a number of councillors as part of this inquiry. One of the obvious challenges is the reduced budgets that councillors have got and how you have adapted your procurement processes and policies to fit in with that very constrained environment that you are all now facing.

Barry Mellor: Thank you for that question. It is at a variety of different levels. The first and most obvious one is, historically, contracts had cost inflators like RPIX inflators. So every year, regardless, they went up by 3%, 4% or whatever. One of the first things we did was to take those automatic inflators out. That does not mean to say that we do not consider proper price increases, where they are justified, but rather we take out the automatic nature of it because, quite often, certainly if it is in people-based contracts, over the last couple of years, the inflation for staff wages has been minimal. Salaries have had, perhaps, 1% or 2% increases, whereas RPIX is a number of percent higher than that.

Basically, that was extra money going to the profit of organisations. So we took out RPIX and had an intelligent conversation with the supplier when there were real price increases.

In all our contracts, we try and build in the flexibility that we can. There are limitations with commercial contracts, but it is building things in like continuous improvement targets. That is more about services because, if you are buying a product, there is probably little opportunity for that. Most of the council's contracts are for services and, typically, we would agree with the supplier, as part of the award process, a year-on-year continuous improvement. We do not always know how, at the beginning of the contract, it is going to be achieved. However, it is a commitment by both parties to build in a certain level of cost reduction.

The third area is contract management. Having good, robust contract management with the client and commercial people, you have sensible discussions with the suppliers. It is not about— to use a horrible phrase— beating them up on price; it is about having a conversation about where the efficiency improvements are. The council might be doing things, putting cost on the supplier. Can we change our specifications to maybe not such a high level of standard if we get an appropriate price reduction? It is having those proper dialogues. Certainly, with our major suppliers or contractors, that is absolutely key because they are a significant part of our budget. We have had a good track record of working jointly with them.

Chair: Moving on from there to the politicians really, having such a big percentage of the council's discretionary spend with contractors on long-term contracts, how far does that fetter the decision-making process in the council, that you are driven in a certain direction by the contracts that you have, sometimes quite old contracts that were negotiated in different times?

Cllr Scott: It is a major factor for local authorities, probably particularly in metropolitan authorities, I would have thought, who may have a higher proportion of their work outsourced than other councils. On the day-to-day impact, there are a few things.

One is, it is more difficult to secure the level of savings that there are when we have in good faith entered into a contract with an organisation for a long period of time, perhaps 25 years, and five, 10 or 15 years into that period, we turn around and say, "Actually, we need to take out a major proportion of that." There is an issue about the pace of change as well.

There is a key issue for us about local authorities being very clear that, when it is public money that is being used, it is still the politicians and the lead members who are accountable for that money. That brings with it some benefits, so it can be easier to hardwire in innovation, as well as drawbacks, which is that we are not the employer, so it is harder to affect some of those key determinants around staff terms and conditions than it otherwise might be.

Cllr Saunders: The other thing, Chair, is that, as you rightly point out, a major slice of our budget is tied up in long-term contracts. As Jack says, that is sometimes difficult to achieve. What we are doing is learning from that a little bit, in the sense that, as we go out to future contracts, we try, as much as we can, to build in savings in future years. We know that cuts are going to carry on at least for the next few years. We try as best we can

to do that. It does put pressure on the non-contract element of the budget as well, though, because that is very small, but it is the bit that all the cuts are going to be targeted against. If we cannot affect the contracts, then all of the cuts hit on what is left.

Q306 Chair: Does the council have sufficient skills, right the way through, in officers and councillors, to manage this very challenging environment?

Cllr Scott: I would certainly hope so. It is, very seriously, part of our argument that I put together in the brief that I provided around the need for lead members, in particular, to develop a new skill set, which perhaps 20 or even 15 years ago was not needed at all. I also reflect that, within the National Health Service, world class commissioning started, I think, around 2005-06. Over the lifetime of that particular project, around £1 billion was invested in NHS commissioning and procurement staff, whereas local authorities did not have that same level of focus on training, on skill development and on new ways of working. I would hope that Sheffield, and local authorities in general, are getting there, but there is still an awful lot more that we need to do, particularly for lead members.

Cllr Saunders: I would agree with that, but also, that is the very reason why we set up Barry's organisation: to give us that expertise of professional purchasers and procurement people, which we did not have to the same degree, and to centralise it into one area. Equally, one of the areas that is part of the smaller area—non-contract—is member training. We have done member training on all sorts of things over the years, including initial inductions for new councillors. We are not here, in this case, as procurement professionals—that is what we employ Barry for—but, as Jack says, we do need to be fully aware of that, whether that training is officer training by Barry's team, which we get and for which any member can ask, if they want that, not just the people directly involved with it. It does fly in the face of what the Secretary of State said fairly recently, however, when he said that councillors were—and I am paraphrasing a little—not professionals and, therefore, were amateurs by definition.

Q307 Chair: I think it was “scout leaders”, actually.

Cllr Saunders: I did say paraphrasing. It just flies in the face of what he said, because, whilst we do not need to be procurement professionals or IT professionals, or whatever it might be, we do need to have a very good understanding of at least the top-level side of this thing in order to make the decisions and in order for cabinet members to sign off what the officers are saying in terms of cabinet-member decisions.

Barry Mellor: As at today, we have a good team, with cabinet members, with clients, and my commercial team. My worry is going ahead, which are some of the issues being raised about lack of availability of training funds. For instance, one of the things we have done for five years is run a professionalisation course, so that all of our procurement people become CIPS-qualified, as the recognised profession. At the moment, 75% are, and growing. My worry is that programmes like that start getting cut back. On that, in my role as chair of procurement for the whole of the region, only about 40% of procurement people are professionally qualified because, across the region, they do not have availability of training funds. There is a need for them to keep going rather than cut back, so there is a bit of a regional issue.

The other concern going forward is that any commercial people are in high demand, even in the public sector, and there is a bit of a salary war now going on, even in the public sector, with the NHS, for instance, offering considerably higher salaries. The worry, going forward, is that we lose the people that we have invested a lot of money in to train and get to the level where they are doing a great job for the city.

Q308 Mrs Glindon: My question is specifically to Mr Hill and Mr Smith. How do you respond to Sheffield City Council's assertions that current collaborative bodies are insufficiently commercial?

Simon Hill: Fundamentally, we are a commercial organisation. We are providing a public service but we take no public funding whatsoever, and trade purely on commercial resources. In that respect, we are competing in a very aggressive marketplace, just like any other commercial organisation. We make a profit, we return a dividend to our shareholders, and our shareholders just happen to be 13 local authorities. I would argue we are an extremely commercial organisation. There is no mandation to use YPO at all by any public body, and we therefore have to convince every individual budget-holder that we have the best offering, whether that is price—and price, as has already been said, is not the be-all and end-all of value, but it is certainly very important. The model of providing this public service in a commercial way is quite an interesting hybrid in that respect.

If I may, just to add to the previous question about capacity and capability, what it also brings to the table is a resource which, again, is owned by the public sector and is free at the point of consumption in terms of procurement expertise. It in absolutely no way competes with or would try to replace procurement officers in local authorities, because that specific local knowledge and understanding is really important. At a time when budgets are being cut, however, it provides that additional central resource that can supplement and help when needed and when called upon.

Paul Smith: It is certainly the case that, in the past, framework contracts might not have been as commercial as they possibly could have been. I have been at YPO for about three years now, and we certainly inherited some contracts that were perhaps not the best possible deals. We have been working hard to change that, so there has been a change in terms of engagement with the market beforehand, particularly with local authorities. We have category councils. We have 13 founder members and another 28 associate members, so we have 41 local authorities that make up YPO and input into the requirements that we put into a contract, so that we go out with a committed volume, therefore driving the best possible contract, and then manage it post contract. That is a change, and a change that we have been implementing over the last three years.

Q309 Mrs Glindon: Could I just ask one more question on this? What would be the advantages and disadvantages of Sheffield being required to procure its goods and services through a centralised body, whether it be national or regional?

Paul Smith: It is different for different categories of spend. We buy a lot of energy on behalf of local authorities. About 70 local authorities buy their energy through YPO, and we spend about £200 million. Once you get to that level of volume, you get very good deals. You can trade flexibly in the market, which means you can buy more regularly and, therefore, deal with the vagaries of the energy market more actively than a council acting on its own. That is the same in a number of categories. We have a lot in fleet. There are

only a few major manufacturers of refuse collection vehicles in the country, for example, and it is best to collaborate to get your volume together. There are, however, some categories that are best bought locally, and we do believe that there is a very strong local, regional or national element. It is about ensuring that the right people are making the decisions about where to buy each of those.

Simon Hill: On your comment about being required to use a central body, I would never advocate mandation. I think that brings complacency. The very fact that we have to operate commercially and that we have to convince every individual buyer that we have the best deal in the marketplace brings that commercial efficiency. Whilst you might construct a logical argument that compels everybody to use one central body, I think that that just becomes some bureaucratic monolith that does not offer efficiency to the public sector.

Barry Mellor: I would agree about not mandating. The process that we go through in our procurement is to consider all options every time. We consider central buying. We use the Government Procurement Service. We consider regional buying. We use YPO, NEPO and other group purchasing organisations. We also do a lot locally, because Sheffield is big enough to have the purchasing power. What we look for is the best value for money while also taking into account the buy-local, SME-support, social-value issues as well. Having the full range of those tools in front of you is really important, but that is part of our standard operating practice. All procurements start with a strategy that has to be signed off by the client and the senior management of commercial services. Part of that is to make sure that there is rigour and challenge in there and that people do not get in a comfy zone where they are always using what they always did. We make sure that we are always questioning whether we are going to the right place. I would agree that it should be at all three levels, depending on what the category is.

Q310 Chair: Just a different side of that is not many councils coming together to purchase together, but councils learning from each other what works well. How much of that goes on? Particularly in these difficult times, councils get completely absorbed in their own particular budget requirements, lock down and do not see issues that might be done elsewhere and they could learn from.

Barry Mellor: I am very proud that, in Yorkshire and the Humber, all 22 local authorities have been doing exactly that, effectively, for about three years. I will not take the credit: I happen to chair that group, but it is the group working together. What the 22 local authorities have really done is created a single infrastructure, so they use the same systems and the same spend-analysis tools. In terms of the PQQ that was mentioned in the previous session, we have just come up with a new standard PQQ for the whole region, so we have a really good vehicle there for working together. Part of that is not only sharing best practice but looking for the collaborative opportunities as well. Because we all use the same system and the same spend-analysis, we can all see exactly what all 22 are doing. In the old world, in a lot of regions, everybody uses different systems, so you cannot quite see and you are trying to compare apples with oranges. In Yorkshire and the Humber, we have that fabulous way forward; now, we have to use it, because we have only just put in a lot of these things. That is one of the great opportunities for us going ahead.

Q311 Heather Wheeler: I will jump in straight after that, because my question was going to be: what have you designed to keep costs to local council tax payers and potential suppliers to

a minimum? Having this new standardised PQQ is definitely a step in the right direction. I will widen this out slightly to our favourite conversation: how do EU rules aid or hamper efficient procurement processes? Any thoughts on that one? Be as liberating as you like.

Barry Mellor: As people are looking in my direction, I think you can either treat them as a barrier and beat your head against them, and they are a problem, or understand them and what they are there for. What they are trying to do is create open competition and transparency, sometimes, because they had to in the past, in a rather clunky way. What it needs is really good procurement people who really understand the regulations, working with cabinet members and clients, who equally understand. If you understand the regulations, they are not a barrier. You can work around them and you can work with them. The only things that tend to catch people out are mandatory timescales. All of this is about good planning. If you do not plan well, you will burn your fingers, because suddenly you run into this barrier of the processes that you have to go through. If you are a good organisation—and there is no excuse, because we can see for years ahead what is happening in our contract register—as long as you plan properly, you can work with the regulations.

Of course, not all of our spend goes through the full gamut of the EU regulations. We would use the principles if they are below threshold, because there is a substantial chunk that are. It is about good management, good planning and working with the regulations. Some of the changes that I understand are coming with the new regulations will make it a bit easier, because they reduce the timescales and give you more flexibility. I welcome that. It is still giving us a framework to work within. It is about working with them and not treating them as an excuse not to do things.

Cllr Scott: There are two things. I suppose, firstly, the fact that they are EU guidelines does not matter, in a sense. It makes no difference to us whether they are EU or national, or something that we have agreed locally. They are guidelines that are there to ensure standard practices. The benefit is that that gives us confidence. If I was a supplier or provider of services, it would give me a level of confidence that the local authority was not going to pull a fast one, because there are a number of requirements placed upon us.

Probably—and Barry alluded to this—the more fundamental point, really, is that, if we did not have these practices, we would have to invent them anyway. As they are there, it makes quite a lot of sense to use them, because, when you go through the regulations in a level of detail, there is very little that I could find where I thought, “This is crazy. Let us take this out.” On the whole, there is an awful lot that gives suppliers and providers a level of confidence that there is a proper process to follow and that this is not being done because some councillor knows someone else who knows the provider. It does ensure much more of a level playing field, and that level of competition that is guaranteed in the way that OJEU processes work is a good thing for our economy, not a bad thing.

Q312 Heather Wheeler: Moving on to the YPO boys, we have heard this conversation before that it is so difficult for suppliers: they just do not know why they did not win the contract or what other contracts might be coming up. How much pre-contract conversation do you have now with potential suppliers?

Paul Smith: As much as we can, before we go out to tender, we engage with the supplier base. Clearly, what we need to make sure of is that we are fair to all. It is always a

challenge for any public body—us included—to make sure that, when somebody is bidding on a tender, you have been fair to all parties. That is where the regulations and guidelines can start to make it onerous to prove. You need to be able to prove that you have been fair to all and, therefore, if you have provided some information upfront to one party, you need to make sure that you have provided it to others. In fact, we are being encouraged to do more of that and to engage more with the supplier base. Recent guidance from the Government is quite clear in that you must.

Q313 Heather Wheeler: Is that a sea change from before?

Paul Smith: I have been in public-sector procurement for only three years, since I came to YPO, but Barry might have a view on whether it has changed from before.

Barry Mellor: It was alluded to in the previous witness session that we, about five years ago, under our cabinet-member leadership, set up what we called the Buy Local summit, that had the Chamber, the Federation of Small Businesses and representatives from all the different sectors, including the voluntary sector, working together to sort things out. This issue came up, and what we agreed was a protocol whereby every supplier has the right to feedback and should be given the opportunity. They may choose not to take it, but they are given that right. There is even a timescale within which we will respond and give them face-to-face feedback. It is always a bit of a challenge to make sure that it always happens, so what I would say to colleagues from other sectors in the city is, if there are examples where it has not happened, I need to know about it, because our promise to the sector is that we always give them feedback. That is the only way we learn and develop together.

Q314 Heather Wheeler: We have heard from other people that one of the risks for people taking on contracts is challenge from other people who have not won the contracts. By all means, if you want to write to us later, how many challenges have you had recently?

Barry Mellor: I would need to confirm the numbers but, off the top of my head, this year it has been about three or four to date; last year, it was about six. All of them are properly investigated independently. There are two lessons: one is consistency. There was a comment made about a recent challenge, where there was an error in the evaluation score, so evaluation is absolutely a critical one. That is why us having one set of professional standards that everybody follows is absolutely key. In that example, a human had made an error, but luckily it was picked up and corrected.

The other lesson is that, often, poor procurement challenge is a result of poor commissioning, because commissioning is where you design the service and what it is you want. If you do not have a clear commissioning-strategy definition, you go into procurement not being quite sure what it is you want to purchase. As a result of that, under the cabinet, we put in a standard commissioning process across the whole of the council. It was implemented at the beginning of this year. Every single commissioner has been trained in using a commissioning toolkit, which has the clarity about what it is you want and, if the answer is procurement—it is not always; there a number of answers—that it leads to a clear procurement. That was a direct learning from the challenges. Fuzzy commissioning leads to poor procurement. We are one of the first councils, I think, in the country to create that complete commissioning toolkit, because that was our learning from where we got the challenges.

Cllr Saunders: Going back to the point about members' training, part of that commissioning toolkit gives an indication to officers where they need to involve the cabinet member. Every cabinet member and cabinet assistant has also had that same training, so that they know that, when they get a call from the officer, they know what it is about and what is expected of them etc. It is not just officer professional training, but also about the cabinet members and cabinet assistants knowing where they fit into that role and what their role is.

Simon Hill: I wonder if I may add to that on behalf of YPO, about challenge. We need to be clear about what we mean by "challenge". We receive several letters per month challenging procurement decisions that we have made. We will have been trading for 40 years next year, and have never had a successful challenge that has overturned a procurement decision. There is almost an automatic kneejerk reaction to challenge public sector procurement by writing in and challenging it, and we investigate every single one. Therefore, understanding that there is almost that kind of culture in public sector contracting is important as well.

Q315 Simon Danczuk: The first question is to everybody: I was thinking, as the discussions went on, about the cuts and the austerity measures that are coming down from central Government. Really, that is an opportunity for local authorities, is it not, and for procurement organisations to squeeze contractors, to get more out of private sector contractors and to put them under the cosh? Have you used that opportunity to get better value for money? Do you want to go first, Jack?

Cllr Scott: I do not know if I would categorise it as an opportunity, I have to say; it certainly does not feel like one when you are having to deliver them. The only way it is an opportunity is if you start from the basis or the assumption that there is inefficiency built into contracts anyway. For example, in Streets Ahead, we spend about £3 million per year on our street lighting. By turning all of our street lights under the contract into LED lights, we reduced that by 40% anyway, so, in terms of further squeeze on that particular part of the budget, there is very little further to go, because it is already built in. Similarly, there are efficiency measures, which Barry talked about earlier, built into nearly all of our contracts now. The idea that there is an awful lot of fat within these contracts and commissions belies, firstly, the competitive nature of the marketplace anyway, and, secondly, the fact that an awful lot of local authorities have been doing a lot of work even before the significant austerity process started, in order to really push down on some of those costs and prices. It certainly does not feel like an opportunity; it is more of a threat to the quality of the work that might be delivered.

Q316 Simon Danczuk: I just thought that the private sector companies might expect to make less profit, because of the economic climate. Is that not the case? What is your experience, Simon?

Simon Hill: I would agree with Cllr Scott, to start with; I am not sure that I would agree with the assumption that it has been inefficient before and now gives us the opportunity to be more effective. Procurement is one of the solutions to the challenge at the moment, and could be used more effectively and more widely to answer some of the challenges that are raised by the cuts at the moment. I would take your point that there is an awareness in the public mind and, therefore, in the supplier marketplace of the squeeze on the public sector.

That perhaps gives a harder edge to the negotiating tool that might not have been there before, so I would accept that.

Q317 Simon Danczuk: Just a question to Sheffield Council particularly: how does the council use procurement policies to deliver the local authority's aims in terms of economic, social and environmental priorities?

Cllr Saunders: For one thing, about three years ago I and a colleague had moved a notice of motion in the council on ethical spend, where we now have a policy that we will not buy cleaning products, in particular, that have been tested on animals, and that we will use BUAV guidelines as to which companies match that criteria. That is now worked into our own contracts and into new contracts as they are let. We are also working with existing contractors, particularly on cleaning materials and that sort of thing. That is one specific example where we have done that.

Cllr Scott: Furthermore, and building on the previous witnesses too, there is now a presumption in our contracts of a living wage. A commercial advisory note was issued across the council that said that there would be a presumption, not that every contract must be a living-wage contract, but that that would be the case. Similarly, one of my current tenders that we are procuring at the moment is about smoking cessation, where there are requirements around apprentices as well as added-value questions, such as "What can you contribute in addition?" That might be where voluntary sector organisations are better placed to be able to contribute extra value to us.

There is also a question around air quality. What we know, for example, is that, in Sheffield, around 500 people die prematurely every year because of poor air quality, so we are now using some of our purchasing power to try to combat that and to ask potential providers of services to us what they will do in order to contribute to better air quality in Sheffield.

Q318 Simon Danczuk: For all those things, from testing on animals through to whatever else, you expect to pay a premium to have them included in the contract, presumably. If you did not have them in there, the contractor could deliver more cheaply. You expect to pay a premium.

Cllr Saunders: It depends. Certainly, from my point of view, with that example I gave, I do not particularly. I think we can squeeze the contracts sufficiently to take that out. To an earlier question, I do not know of a single private sector company that wants to make less profit. That is what they are about: they are about making profit. That is why we have professional negotiators to squeeze that profit, as well as squeezing all the other stuff that makes up a contract in a procurement process.

Cllr Scott: Furthermore, when we go through our commissioning process and strategy, there will be an envelope that that work must be delivered within. If businesses or providers feel they cannot meet the requirements of that within the envelope, it is their choice not to bid. I suspect that, rather than bidders putting in and the council then carrying the cost of that extra requirement, what is more likely is that we would probably get fewer bidders for work than we otherwise might.

Barry Mellor: I would agree with everything that has been said. Modern businesses, whether small or large, accept that they have corporate social responsibilities. I think the trick is finding the right level. Yes, they should make a profit, but they also have corporate social responsibilities, so we need to have a sensible discussion with each business, depending on who they are and what sector they are in, about how far we work together. We have heard about specific ones, but there are lots of examples where organisations offer environmental-for-good funds and where they sponsor community activities and things like that. A lot of those come from the organisations themselves.

You heard this morning about us building in apprenticeships and skills development, and a lot of companies do not see that as a cost but as part of what they want to do to be a socially responsible organisation. One of the lessons for us is that we do not always promote the good stuff like that that is going on, because it is a bit scattered. What we are starting to do is to put on our website and pull together those examples, which is a bit of a name-and-shame too. Those that are laggards look at the good stuff and say, “We could do some of that.” We have started promoting on our website what suppliers are doing in terms of those corporate social responsibilities. It is, however, about finding a balance because, in the current economic climate, we have to get best value as well as that social responsibility.

Q319 Simon Danczuk: It is interesting, isn’t it? You are talking there about some of the bigger contractors—Amey and Veolia, which does waste management. Perhaps it is rose-tinted spectacles, but if we go back to the more paternalistic, localised deliveries of service, they would have done all that stuff automatically. They would have had local apprentices; they would have been donating to the local hospice. It would have been second nature to them. In terms of these larger players that you were talking about, where you are having to go out and get them to celebrate making these donations and all the rest of it, would we not be better getting it more locally and not using such big players?

Barry Mellor: From the information pack I gave you, 63% of our spend is with locally based suppliers. I am not leading you astray: some of those are big companies that have created special Sheffield offices, employing Sheffield people. As far as we are concerned, they are bringing value to the city. Some 63% of our money goes to companies physically based in Sheffield. I agree with what you say, and it is bringing those good things—which probably were the things that happened in the past and maybe disappeared for a while—back to the fore, because there is a recognition that they are important, as well as getting the best commercial deals for the council and the city too.

Q320 Simon Danczuk: Just a quick final question to you, Paul, picking up something you said earlier: you were talking about being fair to all bidders. “Fair to all” is the phrase that you used. You were talking about sharing information that was put out there, which I always thought was interesting from a previous life, when I was in a business tendering for work. It is not unusual, but you get the invitation to tender and you ask a question. Your question is then answered to all the other tenderers. That does not seem particularly fair at all, because, if I come up with a smart question that I think deserves a good answer, why do I have to share the answer to my excellent question, which I came up with, with all my competition?

Paul Smith: Those are the rules, frankly. I think there is a certain skill—

Simon Danczuk: It is not fair to all, is it? It is not fair to me.

Paul Smith: “Equal to all”, probably, rather than “fair”. I think some suppliers are developing skills in just how to answer public sector contracts and how to get smart in the questions that they ask and the type of questions that they ask. They are aware upfront that, if they ask the question, the answer is going to be made available to all, so they might ask it in a slightly different way. It is a duty on us to provide that information.

Q321 Simon Danczuk: Where does that duty come from? Is that in law?

Paul Smith: If we did not provide that information to other tenderers, they could challenge the tender under the law and it would be up to the court to decide whether we had acted fairly. I think guidance would say that we should have provided that same information.

Simon Danczuk: Are you sure about that? Do you think so?

Paul Smith: Yes.

Simon Danczuk: We will have a note on that. I do not know—we could perhaps check it.

Barry Mellor: I agree that it is about having a level playing field, but sometimes you get a question that clearly has some form of intellectual property in it. In that case, you do not. If it is a question that affects the whole market or the whole area that they are tendering, quite rightly you should not give somebody preferential information. If you get a supplier sharing with you, for instance, a piece of intellectual property about how they might want to do it and whether we would be amenable to some creative new idea, certainly you would not share that. It is having that intelligence.

Q322 Chair: Ian Drayton made the point before that, at one time, the relationship with smaller organisations might be about giving them a grant. Indeed, the smaller organisations might develop a service themselves in things like supporting people, where they come up with ideas and the council says, “This is great. We will pay you for it.” Have we lost an element of that in having such a professional approach now to commissioning and procurement, where that sort of informal conversation and that development of services can get squeezed out?

Cllr Scott: Yes, we probably have, on balance. There is a risk-based approach to that that we take as a council about the risks that we might open ourselves up to by saying, for example, to a housing provider, “That is a really good way of tackling homelessness. Here is some money”, without going through a proper process, but you are absolutely right to highlight that there is a potential risk that we lose some of the grassroots, bottom-up innovation that some organisations—and particularly, perhaps, the third sector—might be able to contribute. Any options, ideas or opportunities that there are for us to be able to go back to providers to talk to them about how we could get that back would be very welcome.

Barry Mellor: One of the issues—and it came up in the previous witness session—is about outcome-based specifications. In an outcome-based specification, where we just say, “This is what we want you to deliver”, not how, it should allow the organisation, whether they are large or small, the creativity to deliver it in the best way, as long as it meets statutory requirements etc. I think we have had to take our staff through an education process because, in the old world, they were very used to very prescriptive specifications

that said you went from a to b to c. To move to an outcome-based specification is quite a difference, so we have had to take people through that journey. I did note a previous speaker saying that maybe we were not quite there, so there is work to be done. That, however, should give people the flexibility to put their creativity in, in the future. The new regulations also, I understand, allow you to have some form of open dialogue and negotiation once you have a preferred bidder, which you cannot do currently, so that gives a bit more flexibility, if those new regulations are approved, to have a bit more constructive discussion to take forward your preferred bid.

Q323 Chair: Would that apply in the Streets Ahead contract in terms of the contractor then deciding how they would do things? You simply require them to achieve a certain performance at the end.

Cllr Scott: Yes.

Q324 Chair: That involves a transfer of risk as well, then, to the contractor, does it?

Barry Mellor: It is getting that right balance of risk, because, yes, you are transferring but, at the end of the day, they are a provider and we have to make sure that they are providing the right services to the citizens of Sheffield. Yes, there is a transfer of risk.

Q325 Chair: If it snows this week, then, that is Amey's problem, not yours.

Cllr Saunders: Yes. In Amey's case, they are required to keep the highways safe. If they can do that with a tonne of sand or a million tonnes of sand, that is their risk. We will just jump on them if it is not safe.

Cllr Scott: It does mean that, in a very practical example of gritting, in the awful snow and winter that we had last year the risk would otherwise have been on the local authority and might have cost us something in the region of an extra £1.5 million. That risk was transferred. If we have a good winter this winter, then that risk is lessened.

Q326 Heather Wheeler: Just to finish off, really, what I am quite interested in is the probity in procurement and maximising transparency. I do not know who would like to kick off on this, but what methods do you use to detect and tackle fraud and cartels?

Barry Mellor: The fact that the technical part of procurement is centralised in Sheffield, and we are working with all the clients in the different service areas, means we have better control over the process. We have put a lot of effort into making sure we have a very robust process, with due diligence built in at various points. We work a category-management approach, which is the new word for procurement but is very different. One of the things about category management is that they are subject matter experts who know their sector of the business inside out. There has been a lot of stuff in the papers about cartels or blacklisting in, for instance, the construction industry. It is the job of my experts in construction to know that industry inside out: to be aware of developments, to be aware of somebody who maybe has fallen foul of the courts, and to then bring that knowledge back in and ask whether our processes are fit to pick that up or whether we need to change our processes to learn from that new issue.

To me, it is about very strong professional processes and making sure that people follow them, and experts who know the industry. That includes the clients, because the clients

will pick up things that they know in their specialist sector of the business, working together and being very attuned to what is happening out there, and just making sure that there is the proper due diligence, with all the proper checks that you would expect, particularly at the small end, where perhaps, sometimes, because the value is not there, they just slip through under the net.

Q327 Heather Wheeler: Barry, that is a really good answer, but how many contracts have been identified as fraudulent?

Barry Mellor: We have not identified any. We have followed up on some, especially through some of the issues that have been in the newspapers. We have asked suppliers to tighten up some of their areas where we thought they maybe were not as strong. We have not found any issues of fraudulent activity. It is interesting that the area of fraud that we do have a concern about is to do with spend transparency. We have been very proud to have put everything on the internet about what we spend and contract details. We are now being hit by fraudsters who are using that data to challenge our own systems in very complex scams. It is not just us; in my role as regional chair, I know of a number of local authorities who are being hit. If it was not for the robustness of the processes that we have in place, there would have been some extremely large fraudulent issues. It is always being aware of those things and, while transparency of data is a very right and proper thing in the public sector, we do have to realise that there are some very clever criminals who use that to their advantage.

Q328 Heather Wheeler: To the YPO boys: perhaps it is slightly difficult, because you sit on top of a group of 30 people who are on your list to put in tenders. How do you deal with whistle-blowing if you think that five companies are getting together and saying, “We are not going to do this one, lads. I will stick in the lowest and you stick in the highest”—the old days?

Simon Hill: The answer would be very similar to that which Barry has given. We recruit industry specialists, so all of our category managers looking after a specific category come from the industry. They know it inside out, they know the players, they know how it works and they know the wrinkles to look for. Post hoc, you then have the audit process that looks at that in a lot of detail. While I might have given the impression earlier on that we are very much an arm’s-length commercial organisation, we are all employees of Wakefield City Council. We are subject to scrutiny by internal audit at Wakefield, as well as by the Audit Commission on an annual basis, operated now by KPMG, of course. You have that upfront knowledge that you put in and all of the same public sector scrutiny and audit that every other body is subject to.

Paul Smith: Similarly to Sheffield, I am sure, we make sure that we have segregation of duties between who assesses on price and who assesses on quality. Different people assess different parts of the tender to make sure that it is open and transparent. We have declarations of interest and all those sorts of things that you would expect in contract standing orders and public procurement processes.

Q329 Chair: Just coming back to the living wage issue that Jack raised, the council pays a living wage itself. It is encouraging its suppliers like Amey to pay a living wage. For other sectors, however, it is encouraging rather than prescribing. What do you say to someone who

says, “It is alright for the council to pay all its workers, but I get my wage effectively from the council, because they pay my employer and I am getting the minimum wage and nothing else”? The care sector is, I think, a particularly big challenge.

Cllr Scott: We want to be a living wage city. We are very keen, not just within the public sector but within the private sector too. What we say—and I have had people come to me at my surgery and say almost exactly that, as you might imagine—is that we are desperate for care providers to pay the living wage as well as what they pay currently. Some of them already do, and the corporate response is to say that we will award higher points and that we will encourage and incentivise potential providers to pay a living wage by making it, frankly, more likely that they will win contracts than those who pay purely a minimum wage.

There is an incentive in there but, because of the huge level of cuts that we are facing, we are not in a position to mandate that and make that a mandatory requirement at the moment. I would be very surprised if, in a few years, we are not in that position. Hopefully, this is an example—and perhaps it would be interesting to return to it in a year or two—of the council using its purchasing power to shape the market and to secure an increase for everybody by putting in that incentive, which falls slightly short of a requirement, that is in many tenders. The expanse of the market and how much money we spend on care a year makes it unaffordable to mandate it for everyone.

Q330 Chair: I will just go on to one thing that Ian mentioned. This is about the fact that contracts are quite long and the climate in which they are now operating has changed. You have developed the Streets Ahead contract in the current climate and you have been able to build in, hopefully, flexibilities. On the Veolia contract, however, this came to a position where you had a contract negotiated a long time ago. Have you learned lessons about this—and maybe Jack can answer as well—in terms of having an old contract there and the struggles to renegotiate in a different climate? How have you learned lessons from it?

Cllr Saunders: I would certainly hope we have learned from it, and I think we have, because, as new contracts are coming up—and we have a couple that we are in the middle of retendering—that sort of thing is now built in, so we have learned from previous mistakes, if you want to call them that. I do not think they were mistakes; they were perfectly logical, good decisions under the remit of the day. As you rightly say, things have moved on. The Veolia contract has been around a few years now and it has been extended to 35 years from 25. Again, if we do a contract extension, we would try to negotiate to build in the living wage and ethical buy-in—whatever—as well as building in the ability to make savings against that contract at a later date, should the national position and austerity carry on or get worse.

Cllr Scott: On Veolia, there are two things in particular that we have learned on that particular contract. We have probably learned something about the dispute process specifically. The dispute process is very cumbersome and it is very difficult to agree changes. If there ever is a disagreement between a contractor and the council, I do not think we would ever let a contract in that way again. It is a very arduous process to go through, and that is certainly something that we have learned from Streets Ahead, for example. That is one definitive change.

I also think there is something about recognising that, at the end of the day, these are relationships that are based on human relationships, and I would always want and expect to see a much more consistently productive relationship than perhaps we had in waste management, which was quite paternalistic and top-down for a long period of time, until austerity really started to hit us, at which point it became quite adversarial. That, again, is something else that I would learn, and hopefully we are amending that for Streets Ahead, which is about a much more adult-to-adult conversation with the provider.

Barry Mellor: Two points: because we have a standard process, we have now built into our contracts all the lessons of the past, so they are fundamentally built in. The other point is on duration. I know that, today, we have looked at the particularly long-term PFI-type ones. They are not the norm. They are big and vitally important but it is difficult to come up with an average because I would say that you would normally be looking at a three or four-year contract, perhaps with one or two-year extensions. At the other end, there are some that are care-related and associated with grants, which, unfortunately, we have to renew on an annual basis, which is not the ideal. We would much rather have something that was probably three or four years. Most of our contracts, by volume, are in that sort of area, which gives us a lot more opportunity to do things with them, but it is the big PFIs that we have to live with and learn the lessons from for a long time ahead.

Q331 Chair: I understand quite a few lessons you have been learning are in the Audit Commission's report that they have done and which the LGA has just published, on making savings.

Barry Mellor: Indeed. We worked with the Audit Commission for a year and a half, and they have recognised the best practice in Sheffield, which we are now rolling out across the UK, so we are very proud of what is in there.

Q332 Chair: Thank you for that. We will ask the Audit Commission some questions about that in due course as well. Just finally, I asked the previous panel for one reform you would like to see from central Government to improve the effectiveness and efficiency of local government procurement, if you have one. If you do not have any and everything is okay, that is fine.

Barry Mellor: I get very frustrated that some great things are done in the public sector but are not promoted or pushed. Some of it is because there is no leadership, at a national level, to push them forward—or there does not appear to be. I am not saying where that leadership should be. There is also an element of “not invented here”. For instance, our contract-management toolkit is recognised by CIPS as the best in the public sector and the private sector. That is why we won an international award for it. We are promoting it.

There is a huge missed opportunity for the public sector. If somebody centrally picked that up, there are equal savings to be made out of contract management as there are from the upfront procurement. We made a calculation that, for the UK, on a conservative basis, probably £1 billion could be saved across all local authorities, but it needs somebody to pick it up and drive it, without reinventing the wheel. We have consultants who want to buy that system from us, because we know perfectly that they will then go and try to sell it back to the public sector, which is a huge missed opportunity. There is little real promotion of best practice. That is just our example.

Cllr Saunders: It is a request for more joined-up thinking from Government when it comes to this. The way I see it, you get individual Secretaries of State making decisions for their Department, quite rightly. The example I would use would be schools. Whether you are for or against academies or free schools is irrelevant in this discussion. They are going off and doing their own thing and they become a very small purchaser of services in their own right within the scheme of things. As I said, whether or not you agree with academies is irrelevant; the point I am making is that, if they go off and if that becomes fragmented, you lose the purchasing power. What we have very much tried to do with schools in Sheffield, not just in terms of purchasing but education too, is to keep a family of schools and to get them to buy back in to Sheffield as a family, so as to be able to keep that purchasing power as well as that cohesion within education.

Cllr Scott: Given the sheer volume of public-sector spend that goes through local authorities, what we would really like to see would be some guarantees and customer charters about what we can expect from central Government in terms of this speed and pace of responses, particularly for procurement and commissioning issues, and especially, most of all, for PFI questions too. We have to set annual budgets every single year, which means that, from October time, we have a range of questions that we need central Government to answer. Very often, if we are not having discussions until December/January time, that puts huge pressure on us.

Q333 Chair: That is not just about your grant from central Government.

Cllr Scott: No, not the grant at all, particularly; it is about whether we can buy at more of a bank-out for example, and whether we could do more about changing the PFI model. Because it is a PFI grant, that would have to go to the DfT for an answer and, very often, it will take months just to get a meeting, let alone any sort of decision. It would be very helpful to have a guarantee of response.

Paul Smith: I would hark back to something Barry mentioned earlier, and the fact that we are losing procurement skills within the public sector. There is a drain on procurement skills and we need to invest in those skills, because they will pay back in terms of savings. We are losing them right across Yorkshire and the Humber as we speak.

Simon Hill: I will be very brief—I know you are under pressure. Very much consensus: it is about sharing information. I would not really ask anything from a legislative or statutory point of view, but encourage sharing of information so that you can build a virtual commissioning organisation within the country at a national, regional and local level, and pick the most appropriate combination on a case-by-case basis.

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