

Reform's submission to the Public Administration and Constitutional Affairs Committee's inquiry on "Sourcing public services: lessons learned from the collapse of Carillion"

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1. Does Government make effective decisions on how to source the delivery of public services?

1.1. *What framework should the Government use when deciding what the most appropriate approach to sourcing a function or service is? Are decisions made systematically and consistently?*

- a. No evidence submitted.

1.2. Do policy makers have the right skills, information and incentives to make sourcing decisions effectively – including do they have the operational and commercial expertise to be able to understand what is deliverable?

- a. **Policymakers do not have the right skills, information or incentives to make sourcing decisions effectively.** Numerous independent reports cite a scarcity of skills as a barrier to effectively outsourcing.¹ Procurement officials are incentivised to follow process rather than exercise judgement during the procurement and contract management process.² High churn amongst officials has long been identified as a problem,³ leading to a loss of institutional expertise, learning and reduced accountability for results.⁴
- b. Learning opportunities in the Crown Commercial Service (CCS) have increased in recent years. 55 per cent of CCS staff in 2017 believe they

¹ HM Treasury, *Efficiency in Civil Government Procurement*, 1998; Peter Gershon, *Review of Civil Procurement in Central Government*, 1999; National Audit Office, *Improving IT Procurement*, 2004; HM Treasury, 'Transforming Government Procurement', January 2007; National Audit Office, *Commercial Skills for Complex Government Projects*, 2009; HM Government, *The Civil Service Reform Plan*, 2012; Civil Service, *Civil Service Reform Plan. Progress Report*, 2014.

² Alexander Hitchcock and William Mosseri-Marlio, *Cloud 9: The Future of Public Procurement* (Reform, 2016), 22.

³ National Audit Office, *PFI: The STEPS Deal*, 2004.

⁴ Gary L. Sturgess, *Just Another Paperclip? Rethinking the Market for Complex Public Services*, 2017.

have access to the right learning and development opportunities – higher than the civil service median of 53 per cent.⁵

1.3. *Does the public sector have the capacity to deliver services in-house when that is the most appropriate route?*

- a. No evidence submitted.

2. What lessons need to be learned from the collapse of Carillion about how Government and the public sector manages the risk from suppliers throughout the life-cycle of outsourcing a public service?

2.1. *Is the supply side of the market for outsourced public services too concentrated? What are the risks and benefits of a concentrated market?*

- a. In some areas, the supply side is concentrated and becoming increasingly more concentrated. The Work and Health Programme has five providers compared with 15 for the Work Programme, for example. Barriers to market entry, such as aggressive pricing, indemnity requirements such as unlimited liability, parent-company guarantees and bonds, as well as lengthy procurement processes have led to market concentration.⁶
- b. **The risks of concentrated markets are that government will not get long-term value for money.** Reduced competition will undermine value for money and increase the risk of market failure.

2.2. *What steps has, and could, Government taken to maintain a competitive market amongst suppliers? Does Government have the right skills to be able to procure and manage contracts with SMEs? Should contracts or tenders be structured differently? Are there other steps it can take?*

- a. The Coalition Government supported competitive public service markets through white papers and ministerial announcements, as well as the creation of a central procurement body.⁷ **Yet, a heavy focus on the price of contracts to reduce costs and instances of extracting payments from suppliers have led to a race to the bottom in cost and reduced trust between suppliers and government, in some cases leading to market exit.**⁸
- b. Government does not have the expertise to procure and manage contracts with SMEs. Contracts are often too big for SMEs to bid for.⁹ Bidding processes, with over 100 meetings and documents of over 100,000 words,

⁵ Cabinet Office, *Civil Service People Survey 2017*, 2017.

⁶ Hitchcock and Mosseri-Marlio, *Cloud 9: The Future of Public Procurement*, Alexander Hitchcock, Charlotte Pickles, and Alasdair Riggs, *The Work and Health Programme: Levelling the Playing Field (Reform, 2016)*; Sturgess, *Just Another Paperclip? Rethinking the Market for Complex Public Services*.

⁷ Cabinet Office, 'Open Public Services 2014', 14 March 2014; Cabinet Office, 'New Whitehall Central Buying Service to Save More for Taxpayers', 24 July 2013; Lord Maude, 'Transforming Technology Procurement through SMEs', 27 June 2013; Francis Maude, 'The Crown and Suppliers: A New Way of Working', 21 November 2011.

⁸ Sturgess, *Just Another Paperclip? Rethinking the Market for Complex Public Services*.

⁹ Hitchcock, Pickles, and Riggs, *The Work and Health Programme: Levelling the Playing Field*.

are deemed too onerous for SMEs.¹⁰ When government has split contracts into smaller lots, as with the offender-monitoring tags, poor engagement with an SME led it to exit the market after being named preferred bidder.¹¹ Parent-company guarantees can be a barrier to SMEs bidding.¹²

- c. Digital procurement channels have successfully engaged SMEs. G-Cloud, which lists IT services, has consistently over 50 per cent of spend to SMEs – above the government target of 33 per cent by 2020.¹³ This follows concerns of market concentration in IT providers.¹⁴
- d. Prof. Gary Sturgess's 2017 report details the move from trusting commercial relationships to transactional ones which are based primarily on price. This has resulted in short-term cost savings at the detriment of long-term competition and value-add.¹⁵

2.3. *Does the Government effectively monitor and manage risk for its largest suppliers, and does it have effective failure regimes in place? Does Government understand the public sector's cumulative exposure to individual contractors? Is there effective co-ordination between different public sector bodies in managing contractors?*

- a. **Government does not always effectively manage risk for its largest suppliers.** There is a lot of evidence to show that government's emphasis on price has resulted in a race to the bottom which risks tendering to contracts, sometimes on a loss-making basis.¹⁶ Government's insistence on unlimited liability for some contracts aggressively shifts risk to providers.¹⁷ Poor forecasting and data sharing between government and bidders risks suppliers bidding on contracts for which they cannot accurately model costs and returns.¹⁸
- b. Coordination across government has been poor. Outsourced services have been duplicated.¹⁹ Information underpinning contracts is not always shared.²⁰ Responsibility for providing services has led to goods not being procured efficiently.²¹ Government has struggled to manage risk for providers when multiple public bodies are involved.²²

¹⁰ Hitchcock and Mosseri-Marlio, *Cloud 9: The Future of Public Procurement*, 9.

¹¹ Hitchcock and Mosseri-Marlio, 9.

¹² Hitchcock, Pickles, and Riggs, *The Work and Health Programme: Levelling the Playing Field*.

¹³ 'Dashboard - G-Cloud', accessed 29 January 2016, <https://www.gov.uk/performance/g-cloud>.

¹⁴ Ross Hawkins, 'Government IT Suppliers Behaved Appallingly - Bill Crothers', BBC News, 24 January 2014.

¹⁵ Sturgess, *Just Another Paperclip? Rethinking the Market for Complex Public Services*.

¹⁶ Sturgess.

¹⁷ Sturgess.

¹⁸ Hitchcock, Pickles, and Riggs, *The Work and Health Programme: Levelling the Playing Field*; National Audit Office, *Military Flying Training*, 2015, 42–43.

¹⁹ Eleonora Harwich, Alexander Hitchcock, and Elaine Fischer, *Faulty by Design. The State of Public-Service Commissioning*. (Reform, 2017).

²⁰ Harwich, Hitchcock, and Fischer.

²¹ Harwich, Hitchcock, and Fischer.

²² NAO, *E-Borders and Successor Programmes*, 2015.

2.4. Do current procurement rules and policies allow risks to be managed effectively?

- a. **Current policies and interpretation of rules do not allow risk to be managed effectively.** Issues raised by suppliers through CCS's Mystery Shopper are overwhelmingly for procurement process (64 per cent).²³ Officials do not adequately engage in supplier engagement due to worries that this contravenes procurement rules.²⁴ Disaggregating contracts have in some cases led to complex procurements and supplier relations, such as for offender-monitoring-tags contracts.²⁵

2.5. Does the public sector have the right skills and resources to manage and monitor contracts with suppliers effectively?

- a. Please refer to answer 1.2.

3. Given the concentration of outsourced public sector contracts into a small number of large companies do the rules on oversight and accountability of public services need to change?

- a. No evidence submitted.

4. Are there limits to what can be outsourced?

- a. Governments will deliver and control services that use force on behalf of the state, including front-line police officers and staff and military personnel. Outside of this, the only barrier to outsourcing should be whether a good or service does not achieve value for money. This includes many services that support the armed forces and police. The Ministry of Defence is the biggest central government outsourcer.²⁶
- b. **The extent of private-sector involvement in public services is often not fully recognised.** Government spends £242 billion a year on independent providers.²⁷ The NHS spends £54 billion a year on external suppliers.²⁸ GPs have always been independent providers contracted by the state to deliver NHS services.

5. What lessons can be learned from PFI?

- a. The principles of PFI are sound: opening services to competition is a powerful lever to reduce cost and increase innovation. Using PFI to hold liabilities 'off balance' departs from these principles.²⁹ Contracts have not always achieved value for money, with government tied into paying over market value for contractual agreements.³⁰ Lengthy contracts, of 20 years

²³ Crown Commercial Service, *Mystery Shopper Progress Report 2015-2016*, 2016, 2015–16.

²⁴ Hitchcock and Mosseri-Marlio, *Cloud 9: The Future of Public Procurement*, 9.

²⁵ Hitchcock and Mosseri-Marlio, *Cloud 9: The Future of Public Procurement*, House of Commons Committee of Public Accounts, *Offender-Monitoring Tags*, 2018.

²⁶ National Audit Office, *Managing Government Suppliers*, 2013.

²⁷ National Audit Office, *Commercial and Contract Management: Insights and Emerging Best Practice*, 2016.

²⁸ National Audit Office, *Commercial and Contract Management: Insights and Emerging Best Practice*, 2016.

²⁹ Treasury Select Committee, *Private Finance Initiative*, 2011.

³⁰ National Audit Office, *PFI and PF2*, 2018.

or more, remove space for government to procure more innovative services.

- b. The key lesson is that the execution of contracts should be refined to exploit the benefits of competition on cost savings and expertise.

Reform has published the following papers on procurement and private-public partnerships:

Alexander Hitchcock and William Mosseri-Marlio, *Cloud 9: The Future of Public Procurement* (Reform, 2016).

Alexander Hitchcock, Charlotte Pickles, and Alasdair Riggs, *The Work and Health Programme: Levelling the Playing Field* (Reform, 2016).

Andrew Haldenby, *Delivering the 2015 Spending Review Objective of Successful NHS Partnerships with the Private Sector* (Reform, 2016).

Eleonora Harwich, Alexander Hitchcock, and Elaine Fischer, *Faulty by Design. The State of Public-Service Commissioning* (Reform, 2017).