



Communities and Local Government Committee

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

Monday 4 November 2013

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Written evidence from witnesses:

Panel One: questions 113–155

- [Eastern Shires Purchasing Organisation](#)
- [North East Procurement Organisation](#)
- [Scape](#)

Panel Two: questions 156–184

- [Civil Engineering Contractors Association](#)
- [KeepMoat](#)
- [Federation of Master Builders](#)

Watch the meeting – [Session two](#)

Members present: Mr Clive Betts (Chair); Simon Danczuk; Mrs Mary Glendon; James Morris; Mark Pawsey; John Pugh; Heather Wheeler

Panel One: Questions 113–155

Witnesses: **Ed Walsh**, Deputy Director, Eastern Shires Purchasing Organisation, **Ian Taylor**, Director, North East Procurement Organisation, and **Mark Robinson**, Chief Executive, Scape, gave evidence.

Q113 Chair: Welcome, everyone, to our second evidence session on local government procurement. Just before we start, it is appropriate that Members who have an interest should put it on the record at the beginning of each evidence session. I am a Vice-President of the Local Government Association.

Heather Wheeler: I am a Vice-President of the Local Government Association and my husband is a councillor.

Simon Danczuk: My wife is a councillor, and my father-in-law is a councillor. I will stop it there.

Mrs Glindon: My husband is a councillor in North Tyneside.

Chair: Thank you very much. We have a small business there.

Simon Danczuk: A family business.

Chair: Of course. Welcome to you all this afternoon. To begin with, for the sake of our record, could you say who you are and the organisation you represent?

Ed Walsh: Ed Walsh, deputy director of the Eastern Shires Purchasing Organisation, or ESPO.

Ian Taylor: I am Ian Taylor. I am the Director of NEPO, which is the North East Procurement Organisation.

Mark Robinson: I am Mark Robinson. I am the Chief Executive of Scape, which is a local government procurement organisation.

Q114 Chair: Thank you all for coming this afternoon. To begin with, we are getting quite a bit of evidence of change happening in the way that local authorities procure goods and services, and some interesting examples of new things that are being done. Are we just getting a message from a few councils who are doing interesting new things, and are many of them still stuck in the way things were done 10 or 20 years ago? What proportion of councils do you think really are up to speed with best practices, and what barriers are preventing others from doing the same?

Ian Taylor: I can speak for the North East, because we are owned by and support all 12 local authorities in the North East. They are all quite different in character. We have a couple of big counties, some city councils and some metropolitan borough councils. They all take subtly different approaches to procurement, which means that their strategies will flow from that. A council that has an adviser in a procurement role, rather than controlling everything, will work in a different way from one of our bigger city councils that controls things very centrally.

I can think of evidence from all 12 authorities of interesting things being done, whether it is outsourcing services or buying a service in a different way; we collected some examples from Durham County Council in particular around consulting local residents' groups on what they are spending. NEPO works with all 12 on a regular basis, and the kinds of things we are implementing, whether it is on consultancy contracts or an e-marketplace for social care provision, reflect the needs of the region at least as much as our own ability to innovate.

Q115 Chair: What are the barriers? They are not all doing the best, are they? That is the reality.

Ed Walsh: From our point of view, the last national procurement strategy gave rise to a proliferation of the strategic procurement functions that were developed. Most authorities have a strategic procurement function, so they do not think with any form of collective

mentality very easily. Looking at efficiencies and the benefits of economies of scale is not something that comes easily to local authorities. Although there has been some very good outsourcing, there has also been some extremely poor outsourcing, where the functions even involved the removal of the client function itself. That has left the local authority basically at the mercy of contractors. There are some areas where improvement can be made.

Certainly, though, from my point of view, there are now too many conflicting issues in local government procurement, not least the sustainability issues—wellbeing, localism—which all militate against the benefits of a national approach to procurement. If one looks at centralising, you have that competing issue with localism all the time.

Mark Robinson: Scape is a national organisation, so we are fortunate in that we work with 120 local authorities across the UK. We generally find that we get involved with local authorities when there are some issues with procurement—when procurement has not been a high enough priority within local government’s thought processes. That is a big issue; the starting point for me is that the profile of procurement is not high enough within local government.

There are two major issues for me. The first is resistance to change. A lot of local authorities are still procuring traditionally; that is a fact. They are not making use of all the tools and the toolbox of options for them in terms of procurement. We really focus on collaborative procurement, because we believe that, by combining our purchasing power across the country, we are able to get better deals for local government and, ultimately, the taxpayer.

The second major issue is fear of failure. Within local government, there is a very risk-averse environment. They tend to choose the more traditional or more tried-and-tested method of procurement, which is not necessarily providing value for money any more. These modern, collaborative methods of procurement that are around now can achieve much better efficiencies for local government.

Q116 Chair: In terms of moving things on, is the answer for each local authority to hopefully see the light and come to a different view of the world, or could the Local Government Association do more? Could Government itself be doing more to encourage or require change?

Ed Walsh: Definitely yes, if not least because the risk aversion arises fundamentally from the fear of the consequences of an inadvertent breach of either contract regulations or the directive itself. Risk management these days in procurement is not so much about whether the product or the service is going to be the best one, but whether or not the procurement itself can be conducted without the risk of challenge from suppliers.

Ian Taylor: We are closely associated with work the LGA are doing, so I speak with a degree of bias, but I think it is really healthy that in the last year or 18 months they have taken an interest in procurement issues. They have sponsored a number of projects to bring out examples of best practice, and we have been doing some of those. The work that is under way now on the national procurement strategy in terms of construction, IT and energy is heading in the right direction. It is maybe not fast enough, but local government takes a while to get the ship heading in the right direction at the right speed. I am quite

hopeful that that will take over and deliver things that in a previous life the RIEPs would have done regionally. They were all, including the North East, fairly active in helping to pull together collaborative procurement and put in systems and the like. Since they have gone, there has been a bit of a hiatus, but the LGA do seem to be stepping into that role. Other organisations like SOPO are also contributing to this.

Q117 Chair: Just explain what SOPO is.

Ian Taylor: The Society of Procurement Officers. It is where all the local government procurement officers get together and wonder what is going to hit 'em next in terms of policy or whatever.

There are things there. I sense there is not enough to help encourage local authorities, in so far as they do need to improve their procurement practice to move in a consistent way, but there is a starting point for doing so.

Mark Robinson: I take a more radical view. I think that local government knows what the issues are around procurement. They have known it since the first national procurement company came out 10 years ago. We had centres of procurement excellence then. I do not think we have been radical enough in the last 10 years in changing how local government procures stuff. If we are really serious about collaborating in procurement, let's not just talk about it; let's actually do it. I know there are some examples here of how collaborative procurement can do it, but I just do not think it is radical enough, and it is not changing how we are going to operate.

There is a ticking time bomb in terms of the financial climate we are all operating in now. We need to do something different, and if we are going to do something different, we need to start doing it now. Getting together, collaborating and actually doing things together—not just talking about it, but actually doing it—will help.

Q118 James Morris: You talk about ticking time bombs. In terms of the evidence each of your organisations presented to us, there were quite substantial cost savings. You make a number of different estimates about the cost savings that your organisations deliver around local government procurement. How much more do you think, in terms of millions of pounds, is available for further savings were local government to implement the radical suggestions of Mr Robinson and others?

Ed Walsh: If I am to believe the sorts of figures that David Shields at the Government Procurement Service tells us are available, they are very considerable.

James Morris: Could you put a figure on it?

Ed Walsh: Not sensibly. I could, but I have not prepared for that. It is billions, though.

Ian Taylor: Yes, it will be. The difficulty is that spending in the next two or three years is going to be quite unpredictable. We see a decline, on our spend analysis in the region, by £100 million or £200 million a year, not through procurement action, necessarily, but just through cuts. I think the signs are that will continue, so given that we do not know what the remaining pot is going to be in terms of quantum, it is difficult to say how much extra could be saved. However, I agree with Ed that it is significant sums of money through

both collaboration and better approaches to some of the critical categories in local government expenditure.

Mark Robinson: In terms of straightforward procurement, we put some evidence in our paper that said, on average, we save 14% on what we would do if we traditionally tendered or procured. That is the type of saving we think could be achieved. If you want to take it further, you could potentially combine it with—I don't know—standardisation, etc.

James Morris: As a point of clarification, is the 14% figure what you think you are currently delivering to local government procurement, or what could be delivered if they implemented the radical changes?

Mark Robinson: That is data and facts from the 1,200 projects we have procured through our frameworks. On average, it is 14% savings.

Q119 James Morris: What do you think we need to do in order to root out bad practice within local government procurement? How do we move towards this new world that is being described, or an improved world, building on the good work that you are describing? What more do we need to do?

Ian Taylor: That is a real challenge, because each local authority is accountable to its own elected representatives and has its own culture and style. Imposing a way of doing things on local government would be inherently difficult and probably contrary to the way things are going across the public sector at the moment. Certainly, in the wider public sector, with health trusts, clinical commissioning groups and academies, there is a greater degree of independence amongst organisations that makes it very difficult to command and control what is going on. The best approaches would be around us, the consortia, working harder and better at delivering collaborative deals, and I am sure we could do that. It is encouraging local authorities to take those up, and it is very much around demonstrating what really works in those areas where collaboration does not work. There are quite a few categories of spend that are purely local in terms of what works; we must make sure that every council knows that and can deliver results in its own way in those areas.

Mark Robinson: I guess I would be more radical. As I said earlier, I would set up an umbrella organisation across the UK that has delegated authority to deal with local government procurement. You could do that in a number of different ways. You could have one centralised team; you could have eight regional hubs across the UK, with an umbrella organisation that sits over the top of that; or you could have a different model. The problem is you have to try to get consistency across all of those 400 local authorities. You cannot do it in a nice, collaborative way. You have to take some action. If you are serious about making any difference, you have got to set this up and make local authorities procure in a different way.

Ian Taylor: We have done some analysis of the region's spend profile. We spend £2.6 billion a year, with a bit less this coming year. If you look at the nature of the markets in the sectors that local government buys, only 10% to 15% could be bought nationally, even if that was the right thing to do. Around 25% could be best bought regionally, from regional suppliers, and about 50% is very largely local supply through local SMEs, which will be very difficult for a national organisation to respond to.

Q120 James Morris: May I explore that tension with Mr Walsh? I think in your evidence, Mr Walsh, you talked about the fact local authorities are “far too precious about their own ‘essential’ local standards”. What do you mean by that, and what is wrong with local authorities being precious about their own local standards? We are living in a world where we believe local decisions should be taken at the lowest level of relevance. Why are they being too precious, and what would you change?

Ed Walsh: Thanks for the opportunity. I was just listening to what Mark was saying. In our written evidence, I referred to the fact that most authorities have their own preferences; they have their favourites. You see it in IT managers; they are reluctant to change from a particular network provider or whatever. I will give you an example of the point I was making. Within the local authorities that comprise the joint committee of ESPO members, each of the authorities has over 90 different suppliers of local-authority furniture. There are no economies of scale in that, and quite frankly, what we have managed to do over a period of about five years is rationalise the amount of choice that local authorities within the membership have.

Q121 James Morris: So they were being precious about furniture. Were they being precious about anything else?

Ed Walsh: Another example we gave in the evidence was the wheeled bin scenario. Now, I genuinely cannot believe authorities insist on having a blue bin or a green bin or a brown bin when they could save literally millions by having the same coloured bin with a different coloured top. I know that sounds simple, but our own suppliers have been telling us this. These are just examples.

Q122 James Morris: Is there a distinction between something that should be procured at the lower level and, as Mr Taylor was referring to, things that probably lend themselves more to economies of scale and regional approaches? Is it important to make a distinction between the two?

Ed Walsh: With the advent of sustainability and localism generally, it is important to recognise that within local commissioning strategies there are going to be different local priorities. I do not think you will have any friends within local government if it is mandated centrally that they have to do *x* or *y* and it offends their commissioning strategy. There is a need to recognise that within local political priorities perhaps those politicians ought to have an opportunity to determine their priorities, so that that can influence the procurement criteria and hopefully keep us the right side of the directive and regulations.

Mark Robinson: We think we can do both. We have national framework arrangements in place across the whole of the country, and we still operate local suppliers, supporting local businesses, supporting economic regeneration, and that is done through contract commitments. What happens is that our delivery partners commit to spending locally. For example, for one of our delivery partners, 60% of their turnover of projects through our frameworks is delivered within a 20-mile radius of where the projects originated. If the council in Manchester or Sheffield or somewhere like that wanted to procure a certain amount of projects, we can guarantee that 60% of that spend is spent within 20 miles of that city. Every single local authority member that we come across across the country wants local spend and to help the local economy, and we think we can achieve both. We have national arrangements. We set them up nationally but we deliver locally.

Ed Walsh: There is a distinction between what can be achieved through public contracts and framework solutions. I do not doubt that if we had commitment on volumes or values within public contracts, we could get better results. The biggest problem, though, at the moment with the financial position in local government is that too many directors of resources need the flexibility to be able to vire resources from one service to another to keep things going, and they do not like to make commitments they cannot get out of. Frameworks, despite what Bill Crothers at the GPS is saying, are still very much in vogue as far as the public buying organisations are concerned. They are a huge part of our armoury in terms of assisting local authorities.

Q123 Simon Danczuk: I was reading some research published in July this year that said that UK procurement processes were the most expensive in the European Union and they take 53 days longer on average. That means the French, Germans, Spanish and Polish are better at this than us. Why are we so rubbish at it, do you think, in a few words?

Ed Walsh: It is the fear of failure in terms of the penalties that can be incurred through the Commission.

Q124 Simon Danczuk: Do they not have that fear in other countries?

Ed Walsh: I really do not think they do. I do not think they are as long in the tooth with it as the UK, without a doubt, and certainly the costs of procurement are so high because it is no longer about understanding markets and market dynamics and supply chain management; it is about doing the procedure right, in the knowledge that if you get it wrong, you are going to be challenged at some considerable expense. Whether it goes to court or not, local authorities are incurring a hell of an expense just in legal costs to defend would-be challenges.

Simon Danczuk: You do not think they have those fears in other countries as well.

Ed Walsh: I think they will develop them.

Simon Danczuk: You do not think they have them at the moment, though.

Ed Walsh: No, I do not.

Simon Danczuk: Ian, what do you think? Is it the same answer?

Ian Taylor: Pretty much. I think it is also fair to say that the UK Government, in implementing the directives in the UK, is taking a much more purist approach than others have done. We have probably over-saddled ourselves with bureaucracy. I would not go over the top, though, because I think in terms of transparency—what is going on in the procurement process—you will still need pretty stringent controls over the way in which local government and central Government spend their money. It is not the rules themselves that are the problem; it is the extent to which we tend to take them.

Ed is right: fear of a challenge puts the frighteners on any procurement professional, because it forces you to be over-precise about requirements up front and to be really detailed about the evaluation; it extends the period; it introduces a degree of risk aversion. If we were somewhat freer from that, it would help us chase down some of these savings. Hopefully, with the changes to the directives coming through, there will be some degree of

alleviation of those factors, provided the Government does not go overboard in over-proceduralising their implementation.

Q125 Simon Danczuk: Mark, why do you think we are so rubbish at this?

Mark Robinson: I have some experience in this, seeing as I represent local government in Europe as part of the local employers organisation. I see procurement being seen in a different light across Europe. We are very exact in how we interpret the procurement regulations and the directives. Other countries seem not to take it as seriously as we do. I think we lead in Europe in terms of how we procure stuff, and that is why we take longer. Other countries do not take the procurement directives as seriously as we do, and they find loopholes. For example, in France, if they wanted to build a big project and did not want to go through the EU directives or Europe, they would call it a research and development project, and it gets round the EU procurement directives.

Simon Danczuk: They are more creative and imaginative and innovative.

Mark Robinson: It may be our culture in the UK, but we take things literally, seriously and to the letter. That is probably why it takes longer.

Q126 Simon Danczuk: I was going to ask a question about innovation in contracting out. I have some knowledge of it, and I know Mark does from his previous business experience; I do not know what Mark's is. Some local authorities would split contracts so that they could decide whom they were awarding the contract to, so they were under their own threshold. Is it not the case that local authorities would often get better value for money and would get a better delivered service by having informal relations with the supplier in advance, instead of going through a convoluted, drawn-out process? Is that not a better way of doing things sometimes? It perhaps depends on the value of the contract or the nature of the service. Is there not an argument for more informality instead of formality in terms of some of the contracts that are being given out?

Ian Taylor: You can do both. Part of our standard practice now, both by my organisation and local authorities in the region, is to engage with suppliers in advance. There are a number of advantages.

Q127 Simon Danczuk: A lot do not, though, Ian.

Ian Taylor: I know, and I would much prefer it if everybody did, and there is no reason why you cannot; there are no legal barriers to it.

Q128 Simon Danczuk: Lots of procurement officers think there is. They say, "We will not speak to you. If we speak to you, we have to speak to them, and then them, and then them," and it becomes a drawn-out bureaucratic process that is costing millions of pounds.

Ian Taylor: Maybe that could be a recommendation from this Committee, because there is no reason why you cannot engage with suppliers in advance. Of course, they are very often reluctant to do so if they are in a room full of competitors, but it does start the dialogue around what else we could do to come up with a different specification or a different approach. More importantly, for smaller organisations it is a good way of training them in what is expected once they do come up against the EU procurement process, because many organisations just are not up to speed with handling complex things.

Simon Danczuk: Some of this is not about the EU, though. It is much lower-level than that.

Mark Robinson: I have worked in local government for the last 25 years, and in my view it is a cultural issue. The procurement officers are scared to death of the monitoring officer coming down and saying, “You cannot talk to people. You cannot engage with the market.” They are so paralysed in terms of how they can operate, it is very difficult for them to go out there and engage the market. There is nothing wrong with engaging the market; it is perfectly legal and legitimate to engage the market and see exactly what is on offer out there before you go through a procurement process. A lot of councils do it, because there is a fear there—a challenge.

Q129 Simon Danczuk: Just a quick question to finish: Ed, how many legal challenges have you dealt with in the last 12 months from upset tenderers?

Ed Walsh: From upset tenderers, we probably have one challenge a week.

Q130 Simon Danczuk: Would that be a legal challenge or a complaint?

Ed Walsh: It would be letters from big City firms. Very rarely do they actually get to court; it is not in our interest for it to do so because of the legal costs incurred.

Simon Danczuk: Ian, what about you?

Ian Taylor: Not in recent memory.

Simon Danczuk: Mark?

Mark Robinson: We have been procuring for the last 10 years. We have done over 1,200 different projects. We have never once had a challenge. We have never once had a contractual claim.

Q131 John Pugh: Going back to the letter you had, you say it is not in your interest to take these cases to court when challenged, and you also said that there is, presumably, a result some other way. Does that not imply that they get their way through sending the letter? In other words, you back off.

Ed Walsh: No, no. It is more to do with the technical nature of the challenge quite often. An example is that the enforcement directive requires local authorities on award of contract to specify what the relative merits of the successful bid are against a particular unsuccessful bidder. However, it does not in any sense give any guidance about how much information you give about those relative merits. Quite often, as part of the debrief exercise, an unsuccessful bidder will go on a bit of a fishing exercise to find out precisely what has happened throughout the whole process. Quite frankly, however good a procurement is, if you had a forensic approach to analysing it, you would find some weakness in it.

Q132 John Pugh: So you are not bullied by the big City law firms sending you letters. A lot of people would be quite in awe of them, wouldn't they?

Ed Walsh: No, we are not bullied by them. Many of the big firms will simply try it on. Suppliers are no longer flattered by being a supplier for a big PBO. They realise that in today's economic climate the loss of contracts can mean a lot to them, and it may be a loss of their business. It is absolutely worth them challenging. I am a bit surprised by these guys saying they never have challenges. Maybe it is a measure of how much work we do.

Chair: You could draw another conclusion, but we will go on.

Q133 Mark Pawsey: I take it that each of you would describe your organisation as a collaborative body, where you are putting together the purchasing for a lot of smaller individual organisations and getting economies of scale. Mr Walsh, given that I am familiar with ESPO, ESPO has morphed from a buying organisation into a wholesale distribution company. You run lots and lots of vehicles out of a very big depot immediately adjacent to a junction of the M1. I have no idea how many vehicles you run, but I would be interested to hear. Do you not think you have moved on from your original brief?

Ed Walsh: Actually, it is the other way around, Mark, if I may. We started life 30 years ago as a purchasing and distribution consortium fundamentally supporting the schools activity in our member area. We have sort of evolved to run a fleet of 50 vehicles now, which we will slowly be reducing so that there is a mixture of carrier service and local.

Q134 Mark Pawsey: Why can you run distribution better than the private sector?

Ed Walsh: That is a good question. I am not convinced we can. I do know, from a customer perspective, that they do like the ESPO driver. They think they get the right service from them. It is personal; it is not just a carrier. There is some merit in that, but from a personal point of view, I have advocated that we should look at different delivery methods anyway.

Q135 Mark Pawsey: However, you have assumed the dynamics and operations of a private sector wholesale delivery company. I mean, for example, I am not sure that many people in the room would be surprised that you are supplying Christmas crackers, with all sorts of incentives and discounts, looking at your catalogue here, to get orders in early for Christmas. In what respect does that make you a public sector organisation with the best interests of the public sector at heart, rather than just another wholesaler?

Ed Walsh: To be perfectly honest, our distribution arm represents less than 10% of our business over the year. I am bit surprised that our new marketing team is actually doing that, so I will have a look at that when I get back.

Chair: We have got samples and things.

Ed Walsh: To be perfectly honest, though, what influences the sector is what we can do in terms of making a difference in procurement, and that is hardly the schools distribution side. The consumables side of the business is something that most authorities are not concerned about any more. The pens and paper side of it does not represent a huge expense these days. It is health and social care, it is construction, it is highways, and it is in those areas that we are trying to make a difference.

Q136 Mark Pawsey: Do you think you might be releasing the kinds of products I have spoken about to more commercial private companies?

Ed Walsh: No, I do not think so. I do know that there are private companies that have made challenges in that respect. It has become increasingly challenging for the PBOs, not least because of some oversight of the activity by the Office of Fair Trading anyway.

Q137 Mark Pawsey: If more collaboration is better, why don't you two guys merge, take in YPO and have one distribution company and buyer covering the whole country? Why do we need all these separate bodies, each with a chief executive and their infrastructure?

Ed Walsh: Would you tell YPO that for me?

Q138 Mark Pawsey: That is a matter for YPO, but broadly, why isn't bigger better? Why don't you just all get together and have one big purchasing organisation, add up all the purchasing together, and get better deals on behalf of the taxpayer?

Ian Taylor: We are quite different from ESPO and YPO in the sense that we do not have a warehouse and distribution operation.

Mark Pawsey: I am pleased to hear that.

Ian Taylor: We did in the far distant past, but decided that was not really for NEPO. NEPO gets its strength because we are regionally owned. It is hard enough to get collaboration going in any public sector organisation, for a whole variety of reasons, but we are strengthened by the fact that we are owned by the region, based in the region, and conscious of our obligations to our regional supply base. That gives a strength that a solo national organisation would not be able to deliver.

Q139 Mark Pawsey: Mark, you cover the country, so why can't you gobble up these other guys and have one massive body bringing all the purchasing together? Would that be a good thing?

Mark Robinson: You could possibly have an umbrella organisation for local government procurement. It is very difficult, because there is such a wide category of different things that you procure under local government. However, there is no reason why, over a period of time, you could not develop an umbrella organisation. You could perhaps start with one category of procurement like construction, or another big one like social services, or IT or something like that, and look at harmonising everything that you need to do across the UK.

Q140 Mark Pawsey: Do you think that would effect further savings?

Mark Robinson: I think it would, because you are able then to have a consistent approach. You are able then to deliver and leverage against the market.

Q141 Mark Pawsey: What percentage saving could be achieved by doing that, in your view?

Mark Robinson: On average we save 14%, but there is no reason why you cannot be looking at 20%, or potentially even more than 20%.

Q142 Heather Wheeler: We have slightly danced around this already, so by all means, if you think we have answered it, let's move on. If central Government mandated all councils, schools and public authorities to have greater centralisation of procurement, would that have an impact on the cost of procurement? You are quite straightforwardly saying, "Yes, 20% savings."

Mark Robinson: Yes. If you think particularly of the cost of actually physically going out and doing the mechanics of procurement, the CBI came out with a report in 2008 that said 2,500 tendering processes were unnecessary in the public sector. If they are substantial procurement exercises, they could cost £40,000 or £50,000 each time to do. Think about the internal costs, external costs and costs of bidding for those sorts of procurement contracts, and they are relatively small numbers. If you times it by 2,500, you are talking £100 million easily in terms of savings just in the cost of procurement.

Heather Wheeler: The saving is in just the cost of procurement.

Mark Robinson: The mechanics of it, yes.

Q143 Heather Wheeler: Indeed. Ian and Ed, what do you think?

Ian Taylor: I think you go so far; we in turn save about £70,000 per local authority on average through centralising some elements of procurement that are suitable to be done on a regional basis. I am sure that you could uplift some elements of that and make it national, particularly on ICT, where the sector has a habit of deciding it needs a solution and we end up with two or three suppliers of the same bits of software. There has been no prior collaboration and you have to come back round again, as we are doing now, to try to squeeze out some value. In certain areas, that is perfectly possible.

If we look at some of our markets that are serviced by smaller or locally based organisations and where there is no national player, I think aggregation at a national level would end up with all sorts of unknown consequences, particularly in social care, which takes up over 40% of a typical local authority budget these days—centralising that could be very difficult—but there are things you can do.

Q144 Heather Wheeler: Ed, any extra thoughts?

Ed Walsh: There could be a difference of opinion depending on what we are procuring—whether it is via a framework solution or whether it is actually a public contract, where you are asking local authorities to make a commitment on volume or whatever. Through the advent of the Pro5 initiative, which we launched back in 2005, there was clearly an opportunity for the public buying organisations to work together to increase the benefits and the economies of scale, purchasing power aggregation—the lot. In fact, I read a Treasury report back then where they were looking at hoping local authorities would be procuring upwards of 50% of their consumables by the end of 2011, but of course there are problems to do with the perception of the ownership of PBOs in itself. From that point of view, Mark is probably right. I do not believe in a central depository that organises things, but certainly from a guidance point of view or a process point of view, there would seem to be some merit in trying to consolidate it.

Q145 Heather Wheeler: Moving on, what are obstacles to this centralisation? You are saying it is the distribution side of it: everything goes to one place and then comes back out again. Are there any other thoughts on that?

Ed Walsh: One of the biggest challenges will be localism. Local authorities are creatures of statute. One of the weaknesses to do with sustainability, wellbeing, localism, and all these things that have very similar definitions, is the continuing life of the Local Authority (Goods and Services) Act 1970. Quite frankly, if you want to see innovation and the true benefits of working together across the sectors in local authority community areas—with health, with different bodies, with police—you have got to make changes to that 1970 legislation, so that local authorities and the private sector can work together to get the benefits that they are looking for.

Q146 Heather Wheeler: That is a key answer. What about your thoughts? You are really up for this centralisation, but with a local twist.

Mark Robinson: If you procure correctly, you can build in some of what the local needs are, and you can deliver locally and help the local economies if you are smart in how you procure going forward. There is no reason in terms of economies of scale—whether you are procuring £10 million, £100 million or even £1 billion—why you cannot achieve those sorts of outcomes. We do it on a regular basis. Our clients use us; we have 80% repeat business because our clients still get stuff delivered locally, and it can work.

For me, the barriers in terms of centralisation are the obvious things around power and control in local authorities. Are you taking some of that away from them? Procurement accounts for about a third of public sector expenditure. It is a big number: £200 billion a year across the public sector. There are big numbers involved in that. A lot of local authorities will procure a hell of a lot of goods and services. Taking that power and control away from the local authority would be very difficult; I am not sure how you could do that. However, if you could, that would be one barrier that could be overcome, and then you can start really working together to deliver efficiencies.

Heather Wheeler: Forgive me, Ian. I think we have had a good go at this.

Q147 Mrs Glendon: What benefits are to be gained through integrating procurement with other public sector bodies and the third sector?

Ian Taylor: We have done quite a lot of work with third-sector organisations in the North East, opening up our contracts to help them reduce their costs. It is quite hard work; it is almost a sales task to bring them on board, but we are getting a growing number of local charities using some of our contracts. I think we have yet to find a way of really working effectively enough with the sheer range of different organisations that there are, certainly in the North East, but we keep talking to the main representative bodies to work out a way of improving that situation.

There are growing signs of levels of collaboration with health and education across the regions. That is developing, but it is developing slowly. It is hard enough to bring together collaborative exercises within the sector, never mind adding one with health as well. That multiplies the challenge significantly.

Ed Walsh: As far as local authorities and health working together is concerned, there is a certain feeling that one is still walking on eggshells to some extent. The changes have

been so dramatic within health that the local commissioning groups are still trying to find their feet and anxious about the prospect of something like a PBO coming in as a knight on a charger to help them. We need a softly-softly approach to winning their co-operation.

One of the problems is not a shortage of willingness to collaborate but a shortage of willingness to share in liability, and that in itself is a bit of challenge. Certainly, from our point of view, our director of resources would want to ensure that, if we are doing work for other sectors, they accept their share of the risk that goes with that. I am making this point simply because I have worked hard to gain some movement on the part of the Government Procurement Service to do genuine joint procurement with us. This is where the names of both organisations appear on a contract notice—where the market-demand requirements of central Government and the local authority are specified clearly on a contract notice. Sadly, there is a reluctance on the part of GPS to share in that risk. That needs some work, to be honest, by the Treasury lawyers and those that are prepared to make it work, because I think there are genuine savings to be achieved by us working together.

Mark Robinson: All our procurement arrangements are open to any public sector organisation, not just local government. Around 120 local authorities use our services, but another 200-plus public sector organisations use our procurement arrangements. We do not see any barriers in terms of anybody in the public sector taking advantage of collaborative procurement. We do it every day.

Q148 Mrs Glindon: No-one has yet mentioned community budgets. Do you see a way for community budgets to ensure that there is more integrated and cheaper procurement across communities? Do you think community budgets add value in that way?

Ian Taylor: I am sure they do for the types of budgets that are relevant very locally. As a collaborative organisation, we would have to think quite carefully and even cleverly as to how we might relate to that. For instance, in our energy contracts, we have about 8,000 different sites within the region. They are quite difficult to manage; obviously, it is a logistical task. Increasing the number of those points of contact would stretch our resources quite significantly. We need to be working through local authorities, like Durham, who are engaging in these kinds of developments, and perhaps we need to think a bit more carefully about how we service those local budgets.

Mark Robinson: Community budgets are a very good way of forcing people to work collaboratively if they are used in the right way. Take capital expenditure, for example. If there are a number of different needs within that community that can be serviced from one building or a series of projects, they can be paid for collaboratively through community budgets. Instead of it being a silo mentality and silo working across that community, and you have health doing different things, you have police three nines doing different things, and you have the council doing different things, there are opportunities there to work collaboratively and get the most out of the budgets that are available.

Ed Walsh: All I would add is that, as long as the budget realistically acknowledges the cost of procurement, I think it is a good thing.

Q149 Mrs Glendon: It could bring economic benefits.

Ed Walsh: Yes.

Q150 Simon Danczuk: Starting with you, Mark, what are you doing to encourage or enable SMEs and micro-businesses—small businesses—to win public sector contracts, and what more could be done? Please answer concisely.

Mark Robinson: We make our procurement opportunities as simple and straightforward as possible. We do work on higher value procurement arrangements. The SMEs may not be able to apply directly, but we encourage the supply chain to be from the local area in which the specific projects are being procured. For example, in the East Midlands we have a supply chain portal with 2,000 supply chains that the main delivery partners can access. Around 60% of our supply chain within that region is being procured through that supply chain portal. Although they are not bidding directly, there are still opportunities for them within that supply chain to get work—and continuity work. We have had some fantastic success stories. There are SMEs that started off in mum and dad's garage and now employ 100 people and have 40 vans on the road, etc., just through that continuity of work through collaborative procurement. They are able to have their order book planned over a period of time, so that they can plan for that growth and expansion. It can really deliver benefits to that local community.

Ian Taylor: I have three points. Firstly, data: we are now starting to track just what proportion of the region's spend goes to SMEs, smaller organisations and micro-organisations. If we can measure it, we can start to think about how we might do something. Although these numbers may not be completely accurate because we still have a big classification job to do, something like 40%-odd of the region's spend goes to smaller organisations and 8% goes to micro-organisations, which is not inconsiderable.

Secondly, we run something called the NEPO Business Club, which sets out to support small organisations and voluntary organisations, running a series of training sessions in which they learn how to bid effectively for public sector contracts. That is not unique, but we have quite a good track record of doing it in the region. That should help organisations prove to be more effective.

Thirdly, we have a solution for consultancy and a lot of the professional services. After all, a lot of professional services organisations are, essentially, SMEs, particularly in the North and the North East. We have implemented a process to run a managed service, which helps to speed up the recruitment process and will ultimately allow us to track which are the effective professional services organisations in the North East and develop them further. For those that are coming through but are not quite good enough yet, we will be able to focus help to support them to develop their business in the region.

Q151 Simon Danczuk: That is quite innovative.

Ed Walsh: ESPO's procurement exercises are all required to have business cases. Under service contracts, we are now obliged to specify what the social benefits are. We are aiming to encourage the stimulation of the local economy and suppliers. One thing we have done within the consortium is seek a clear and common definition of what we mean by SMEs, because there is a European definition that is a lot bigger as an organisation or

enterprise than most of the local suppliers really want. Therefore, we are really talking about micro-enterprise.

With most of our procurement exercises, we break it down into lots, encouraging any supplier to bid for all or any lot—there is an encouragement to do that. We give advance warning of all the opportunities on websites across the consortium. We also require the prime contractors to apply the same payment terms that we have in our contract to their own subcontracts, and also to advertise subcontract opportunities to stimulate interest as well. Obviously, where we can, we ensure that the evaluation criteria take account of the contribution that can be made to the local economy.

Mark Robinson: In our latest procurement arrangement, we have bound into the framework agreement a contract that, for every £5 million of spend that goes through the framework, the delivery partner will help set up a new business within that local area. It is a really good example of how smarter procurement can help local businesses. They would look at gaps in the market or gaps within their supply chain, and for every £5 million of spend, they have committed to setting up a new local business within that area.

Q152 Chair: Probity and transparency should be at the heart of public sector procurement. To what extent is what local authorities tend to go through a tick-box exercise—“We have done that the correct way”—as opposed to having really effective systems in place to identify fraud and deal with it?

Ed Walsh: Certainly, it doesn't feel like that in ESPO. We have an audit with our servicing authority's audit department, which is both time-consuming and extremely costly. The auditors are literally living with us. We have standing orders, contract procedure rules and financial management instructions, all of which are audited on a regular basis. I would be very surprised if there were any real loopholes that could be exploited.

Ian Taylor: It seems to me that there is a lot of transparency. There are tick-boxes, but there is also a range of different controls. As to whether they are too burdensome, in the context of what we talked about before, you might be able to say that. From a NEPO perspective, everything we do is visible to all our members—everything is signed off at key stages. Because of the processes we go through, everything is visible to suppliers and potential suppliers, users and potential customers; it is very visible. We manage a risk-based approach. We go to a more extreme level of control and sophistication for something that is profoundly difficult and expensive, but where the spend is lower and the commodity is easier, we will take a lighter approach.

Mark Robinson: Local government is too fragmented. It is very difficult to control fraud. The example I put in the paper was of the Office of Fair Trading fining construction companies about £120 million in 2009 for bid-rigging in local government—for rigging contracts. They are only able to do that because there is such a fragmented approach in local government. If, again, you were going to centralise and have an umbrella organisation that could help limit that type of activity going forward, I think that would be a big help. We are too fragmented, in my opinion.

Q153 Chair: Are all of your organisations covered by the Freedom of Information Act?

Mark Robinson: Yes.

Q154 Chair: Should there be an extension of the Act to cover anyone involved in local government procurement and, indeed, private sector organisations that take on the running of local authority services that were previously directly delivered?

Ed Walsh: I think there is some confusion, Chair, with the remedies available to people generally. You often find suppliers that, for instance, could have a remedy within the procurement rules, using freedom of information legislation to make enquiries generally.

Q155 Chair: You are covered, but if somebody wants to question what an organisation is doing in running a service that was previously delivered by a local authority, to which the FOI Act would apply, the FOI Act does not apply to the private sector organisation.

Ed Walsh: No.

Chair: Should it?

Mark Robinson: There has been a recent extension to the Freedom of Information Act that has just gone through. I am not sure whether it covers the private sector or not—the deliverer.

Ed Walsh: I think it should.

Ian Taylor: Yes, I would agree with that. As organisations increasingly take over aspects of the public sector, for right or wrong—it is happening at every scale—the accountability of those providers of services should be subject to greater scrutiny, and we should be doing something in the procurement sector to make that happen.

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

Panel Two: Questions 156–184

Witnesses: **Alasdair Reisner**, Director of External Affairs, Civil Engineering Contractors Association, **Alan Rogers**, Business Development Director, KeepMoat, and **Bola Abisogun**, Chair, Procurement Group, Federation of Master Builders, gave evidence.

Q156 Chair: Thank you very much for coming and being the second panel of our evidence session this afternoon. For the sake of our records, could you say who you are and the organisation you represent?

Alasdair Reisner: Alasdair Reisner, Director of External Affairs at the Civil Engineering Contractors Association.

Bola Abisogun: Bola Abisogun, Chairman of the FMB Procurement Group and a member of the FMB.

Alan Rogers: Alan Rogers, Business Development Director, KeepMoat.

Q157 Chair: Thank you all for coming. To start off, we are told the Government Construction Strategy aims to deliver 15% to 20% savings in the lifetime of this Parliament. Is it realistic to aspire to that? Is it realistic to expect it to be delivered?

Alasdair Reisner: Absolutely. The Government Construction Strategy is obviously a piece of work that took quite a lot of time to develop, and it was developed with industry. They were not picking numbers out of the air. There had been some engagement to discuss whether the targets within it are deliverable. However, it requires work between industry and the client base, whether that is central Government clients or, as we are talking about today, local authorities, to deliver those aspirations. A lot of the focus of the Government Construction Strategy was on central Government Departments, though.

Alan Rogers: From a contractor's perspective, I have seen a lot of work around structures within local authorities, with headcounts being reduced, so clearly that has thrown off significant savings. I have seen more activity around frameworks and joint procurement. That has thrown off significant savings. I have also seen longer-term contracts that give opportunities for contractors to deliver innovation and identify savings through the life of the contract. I have seen some good work, but there is still an awful lot of low-hanging fruit that needs to be picked.

Q158 Chair: Just to help me understand it, are most of those savings going to come from the better practices and procedures of local councils themselves—fewer staff, more collaboration at that end—or the fact that, by organising their procurement better, they can get better value for money for the contracts they put out? It is more work for less from people like you, I suppose.

Alan Rogers: Correct. It is a very expensive exercise to do repetitive tender exercises. I have a large team who are continually writing and estimating bids to win more business, particularly in the outer London area. That is a huge overhead that we have to carry, which someone pays for. Ultimately, the local authorities that we work with pay for it, and that is detrimental to the funds, because they could be spent elsewhere if there were a better procurement method. Certainly, I am seeing some improvements, but there are huge areas of activity that are repetitive around continual length of procurement, particularly the engagement of consultants, because, as I think I heard from the previous forum, some people are too frightened to stay away from the EU procurement directive and the rules and regulations that go around that. They bring in lots more experts to make sure that they do not make mistakes in that process. They save it, on one hand, by giving long-term contracts, but they incur lots of extra upfront costs.

Bola Abisogun: I would agree generally with my two learned colleagues here about the strategy. Innovation is going to be the key moving forward and the general risk aversion by local procurers, which is hard to implement if there is no guarantee of the savings before they proceed. Generally, I do not think there is much choice but to move forward, innovate and embrace risk to a larger degree.

Q159 Chair: The local government sector is obviously very disparate, and quite a wide sector with lots of different councils. Who is giving help? There will be some councils

who understand straight away what they need to do and get on with it, but to make the savings you really have to get those councils who probably have not given it much thought in the past, and they will need some help. Who is giving them help to take them forward and get them to understand what may be available to them?

Alan Rogers: I am seeing an increase in local authorities having potential meet-the-buyer events, where they are engaging with contractors and getting them into the whole process to understand how they should shape the tender process, what is attractive to the marketplace, and where they would identify efficiency savings if they brought other services into the scope of works. I am seeing an upsurge of that. That does not necessarily mean that the things we recommend get taken up, but it does mean that they are seeking innovation from contractors to shape or form the procurement technique.

Alasdair Reisner: There is an issue about who drives improvements in procurement within the local authorities. It is very easy to see how that happens within central Government Departments. There is clear mandation that flows from Whitehall and Westminster straight out through the Government Departments: “You will change,” and the change happens fairly quickly. With local government, it is much slower, and there is no mandate to say, “You will do this,” or very infrequently does that happen. That has been a blocker to a lot of the things that we would like to see happen in terms of change in the industry: things like pipelines for investment in local authority construction. You cannot mandate for it to happen; therefore, it has not happened. Mandation of single pre-qualification forms across the whole of the local authorities just has not happened, because there is no way to go to those local authorities and say, “You will.”

Q160 Chair: Can’t you get the Local Government Association to at least get enthusiastic about that to start with?

Alasdair Reisner: You have almost got to go to every single one and explain the benefits of doing it. That is quite an arduous task for something that will bring about huge benefits for each of those authorities.

Bola Abisogun: One of the things central Government can do is lead by example and, obviously, impart best practice. One of the things that the FMB recently did was to produce this report, which I am sure Members around the table have seen or heard or read, and within that, there were a number of recommendations that I am sure central Government, at least, may be looking to take forward. It would be helpful to have implementation at a local level. At least then you have some sort of consistency in terms of what is deemed to be necessary and what is needed. They are trying to do the best they can, but without looking at what each borough or body is doing. They are just trying as best they can. There is no real structure or direction that they can follow, and I believe that should be led by central Government.

Q161 Simon Danczuk: I want to ask about SMEs and small business. There is a push for savings or cuts—call it what you will—and yet there also appears to be a desire for more processes and more red tape around procurement. Is this not going to drive out opportunities for SMEs and small business?

Alasdair Reisner: We have to be very careful of that, because I do see the attraction of huge deals equalling huge savings. However, at the end of the day, small businesses

probably exist in the local authority area; therefore, they are providing jobs for the council tax payers in that area. To put in place policies that act against your own constituents seems a very unusual way to do a council's business.

You have to balance off the very obvious benefits of these large deals with the desire to have sustainable business opportunities for the small and medium-sized companies within that area. That is the big challenge facing not only local authorities; procurers of construction across the sector will face the challenge of how you still support smaller businesses while also trying to extract the additional value that the longer-term deals can create. I do not think it is impossible; you just have to create structures where you do not say, "This works only for SMEs." If you are putting out a framework containing opportunities for, say, £100,000 to £250,000, I would argue that only SMEs should be competitive for that kind of work. Once you pay the overhead for the larger firms, they are not going to be competitive against a more flexible, nimble SME.

Q162 Simon Danczuk: That is a good point.

Bola Abisogun: There is a risk that the definition of SME is misinterpreted. As far as the FMB is concerned, we are talking about micro-businesses—companies that, essentially, employ fewer than 10 people. That is a completely different dynamic from the SME agenda per se. Within the realms of the local context and the local economy—and we heard earlier observations that it is key to driving growth, etc—it is also necessary to consider how you develop frameworks with a way to reserve or set aside work for micro-businesses, as opposed to just SMEs, and there are a number of ways you can do that.

Some of the recommendations are in this report. One thing that comes to mind is a small lots exemption, which is part of the Public Contracts Regulations 2006: regulation 8(12). That is a clear mandate and a clear process that could be adopted, but yet again you find local authorities tending to move away from what is not the norm and sticking with the easier option, which is to procure a large framework and bundle the contract, which in itself does have a value but it does not yet always address the issue about local business and local economies.

Q163 Simon Danczuk: Those are good points.

Alan Rogers: It can be quite an emotive subject, if I am really honest, in that we procure work with local authorities that say, "Well, 85% of your workforce must be directly employed." I work for an organisation where predominately we employ SMEs and small contractors in the local communities in which we work. That is a grown-up, responsible attitude, I believe. If you employ local people, you gain local knowledge, and grow and develop the pound within the communities in which you work. However, when we are then told we need to directly employ people, that goes against the grain for me, because we lose the history and knowledge that people have in my sector, which is predominately social housing, and we as an organisation, and I think most contractors in my field—particularly our competition—are engaging more with SMEs to ensure we capture the knowledge that has gone on in the past.

It can be quite difficult to start that engagement process, because we go to the local authority and say, "I want a list of all the small contractors that have worked in your community before." The reply is, "I am sorry, but that contravenes data protection; I

cannot give you that information.” Then we have to spend some money to start that engagement process, and that could be through radio advertising, newspaper adverts or knocking on doors to say, “We are looking for local community contractors,” and they come to us. We have to be a bit proactive about it.

Q164 Simon Danczuk: Finally, let me run one scenario past you. Tell me whether it is accurate or fair or an important issue. The vast majority of chief officers within local government are creatures, naturally, of local government, i.e. they have not worked anywhere else, have they? They are not familiar with SMEs or micro-businesses. Added to that, they often have experience, whether it be in children’s services or regeneration, in the big departments within local authorities. They rarely appear to come from the procurement department team or whatever else. How much is that a problem or issue in terms of getting this message across to senior officers in local government that they need to understand small firms in a locality?

Alasdair Reisner: To be honest, I do not think it is just that they need to understand small firms; they need to understand procurement in the round. The understanding of modern best practice associated with what it is to procure—and that will bring within that the use of both micro-businesses and SMEs—can be fairly sparse in some organisations. You are still procuring on the basis of a model that is 20 years old, because that is the last time they really thought about these kinds of things.

Q165 Simon Danczuk: You think it is a real issue in terms of leadership.

Alasdair Reisner: I think the Chair said earlier the local authority sector is diverse, and there will be examples of very good practice, so I do not want to look like I am pointing the finger at all. However, there are some examples of terrible practice out there purely because, as I say, it is best practice that is 20 years old and has never really been updated. There is not necessarily the ability within the organisation to bring people up to speed.

Q166 Simon Danczuk: Nobody is driving it.

Alasdair Reisner: There is no leadership of procurement.

Bola Abisogun: I have to agree largely.

Q167 Simon Danczuk: You are allowed to do that here.

Bola Abisogun: It should be that people who are procuring specific services are fluent in the technicalities of that service. I always say that the brief dictates the success. If they understand the brief, that will lead to some level of success, but without that, which tends to be the norm in the experience of a lot of our members, it is unfortunate that you get people who are just in a position, doing a job, without really understanding what they procure. It is a disappointment.

Q168 Simon Danczuk: There is an issue with the leadership of local government.

Alan Rogers: I have to concur with my colleagues, in that we have some specialists in procurement within local authorities. We have some mediocrity regarding commerciality

from the client's side, at best, I have to say, and we do not have the specialism around procurement and contracting from a commercial perspective on the client's side. We cannot get a decision from the main contacts that we are talking to; they have to go through procurement first, before they can make any decision. Roles and responsibilities could change and help practice, to be fair.

We have seen a lot of changeover in staff. There has been a headcount loss in the last year, and that has had a huge effect in procurement for us.

Q169 Chair: There was an interesting point there. Is there a problem? It is not merely that you have not got professional procurement officers in councils, but that often the people who run the services—the client, at the end of the day—do not understand the process. There is a disjunction between the client on the one hand and the procurement officer on the other.

Alan Rogers: Correct. It is that the person who wants to procure that service does not really understand the rules and regulations around procuring that service and is reliant on other people. Sometimes that goes amiss, and it is a real problem. It is actually understanding what they can procure and how they can procure it. They are just reliant on other people.

Q170 Mrs Glindon: How much more could and should be procured via collaborative bodies?

Bola Abisogun: You mentioned collaborative bodies.

Mrs Glindon: Yes. How could collaborative procurement help local authorities deliver effective services?

Bola Abisogun: Essentially, the theory of the collaboration tool is great. The issue is that, where they cross boundaries, particularly local authorities, some may choose to use their own vested interests in terms of succeeding for their own particular locality and constituents, and that does cause problems. However, the theory of getting together, saving money and achieving the same product is a good one. The issue, as we heard before, is that there is no consistency across the delivery, and then if you decide to benchmark or monitor the outputs, it is very difficult to compare like with like.

Alasdair Reisner: In the last five years, we have seen within the construction contracting side of the industry a move towards multi-authority procurement agreements. Some have been more successful than others. It is hugely important to ensure right from the outset that they have the buy-in of all the people they putatively represent.

What you do not want is an authority to go out to the market saying, “I represent the whole of this region,” and so the market responds, and that is quite an attractive opportunity, but, lo and behold, once they have gone through the huge cost of that procurement process—because this is not a cheap business when you are talking about tens of millions of pounds theoretically on offer—the local authority have to put their hands up and say, “Actually, we do not represent them. We put them on the notice, and they can use us if they want, but the way that we are structured, they see that they are better off doing it off their own back.”

We have seen that happen, and that is slightly worrying, because the costs of that end up sitting in the supply chain, and those costs only ever go back to the client elsewhere as raised costs for future work.

Q171 Chair: Have you got some examples of that that you could let us have?

Alasdair Reisner: Yes. We can write to you with the details of that.

Alan Rogers: I can probably talk of some fairly live examples of where I have seen some absolutely fantastic collaborative procurement through framework agreements or buying consortia, and that really has driven some costs down, I believe, in some areas. However, I do see in some instances it can be somewhat of a tick-box scenario—“we have joined a collaborative club; we are buying things through consortia”—and it is just paying lip service to it.

A really good example of that would be probably the longest-running framework consortium arrangement in the UK, which is the London Housing Consortium. It is over 50 years old. We are a framework contractor. We have gone through a huge, lengthy process of procurement, through pre-qualifications, through a tender exercise, and we have become one of six contractors to refurbish the internals of houses, and that has been a fantastic achievement by our team. Then LHC go out to sell that to the marketplace, within the London boroughs particularly, but it is a national organisation, and a local authority in London will say, “Yes, I am going to buy into that,” because it is a good tick box to have. They put six tenders through it and they procure consultants to do the tender, and we have to go through the whole process of doing the quality submission and health and safety, and we had already gone through that route. Again, it is another instance where that cost has gone on to the contractor.

I also believe that in some areas in collaborative procurement there is no guarantee of workload from a contractor’s perspective. When we are bidding for a framework, we do not always drive the best value, because if I go to my supply chain—particularly my material suppliers—and they say, “How many kitchens are you going to buy?” I do not know, because I do not know how much work we are going to get out of it. If we are actually bidding for a real, live project that we know we have a chance of winning and there is *x* amount of doors, windows and kitchens, and we can give our suppliers actual numbers, I really start to then drive down cost, and that is where I see some fantastic efficiencies being driven and handed back to the client.

Alasdair Reisner: That visibility point is hugely important. It is not just about getting the supply chain better; it is investing in skills and innovation. If you can see a programme of work coming and you have been selected for it, you can invest in those kinds of things. If it is a zero-value framework, where you cannot ensure what level of work will be coming through, you cannot do those things, and that means you just do not get as good value out of the deal at the end of the day.

Q172 Mrs Glendon: Alasdair, who would pay for and run your suggested flying squad to support council procurement teams?

Alasdair Reisner: I sense you feel I am flying a kite here somewhat. I think that is an important point. What we were trying to get across with that idea was that very clearly,

particularly at times when local procurement departments have had significant headcount reductions, there are not necessarily the skills within all local authorities to deliver the procurement, particularly with high-value procurements. If the solution to that is to put together a team who move from authority to authority to deliver these, and by doing so learn themselves as they learn from procurement to procurement, they get better at doing the job and also the local authority does not need to hold on to a procurement team that they may use only once every six months or every two years. There would be some value there.

As to whether we have developed the idea fully enough to satisfy this Committee, I suspect the answer is “maybe not”. However, you would like to suggest that if that model did drive savings, those savings would help pay for the team itself.

Q173 Heather Wheeler: We have probably got your view on this already, but by all means give us a quick response if you like. Do you favour central Government mandating greater centralisation of procurement from local authorities?

Bola Abisogun: Mandating?

Heather Wheeler: Yes—make them do it.

Bola Abisogun: It is a great idea. It is really, though, what you would expect from that process. Again, not all local authorities are the same, and it is all about the competence of the team. If they can deliver on your brief and expectations, great, but there will be so many variances, I believe, that it may not be easy to control or measure.

Alan Rogers: It is a local thing. I will have to concur with Bola that every region is different. There are different demographics and issues within different communities. To mandate it precisely is quite tough.

Alasdair Reisner: My previous answer in relation to flying squads is that they do get to how we might deal with, not the centralisation of procurement, but making better use of procurement capability. However, I do believe that there is an argument for some mandation in relation to local authority procurement, and that should be around the provision of a pipeline of investments, because doing so goes back to our point about visibility, and that helps the market to invest. I will write to you afterwards with a full list of the benefits that we see, because we probably do not have time for that today.

Regarding pre-qualification, it is insanity that we, by local authorities, are using hundreds of different bespoke forms to do what in essence is one job. There is a strong argument for a single standard pre-qualification form, not solely for local authorities but for all public-sector procurement or, even more broadly than that, all procurement of construction in this country. We have figures of between £250 million and £1 billion of unnecessary cost in the industry, so the issue there is one around mandation. Unless you tell the local authority, “You will, or you do not get your money,” it is never going to happen.

The final point is whether there could be more mandation around consistency of procurement approach. Single models: we try to drive towards a small number of specific models of procurement; therefore, everyone understands what they are getting themselves

into when they get into a tender. That is not the case across the local authorities. If you could get more consistency there, I think that would be helpful.

Q174 Heather Wheeler: On the one hand, mandation is great, but on the other hand, localism rears its head, so how do you fit those two together? We have two gentlemen here saying basically you cannot, but you pick off your bits.

Alasdair Reisner: If we did have the flying squad approach that we have talked about, you would not do that in isolation. At the end of the day, this is all about facilities or infrastructure that people use, so you would want the users of it to have a strong say in how that system progresses, but what you would not do is have the people who do not know how to go about the mechanistics of the procurement suddenly exposed: “Oh, I have £50 million to spend and I have never done that before.” You want that to be done by someone who has those skills and does that as a day-to-day job, and knows how to get the value out of the process.

Q175 Heather Wheeler: I am really interested in this idea of maybe standardising certain processes, particularly PQQs; that is just completely logical. However, do councils sometimes get into a bit of hot water over all of this because either they are unbelievably risk-averse or, as part of all of that, they are gold-plating EU regulations? Is it EU regulations that are causing all the trouble, or is it councils being so risk-averse that they are gold-plating those EU regulations? Any thoughts on that?

Alan Rogers: You are absolutely right. They are gold-plating them. They are so frightened of future challenges that they want to make sure they cross the T’s and dot the I’s wherever they possibly can, regardless of what the time constraints are and the costs allocated to that. It would be of huge benefit to have standardisation through pre-quals and standardisation through the measurement of analysing that and assessing tender bids.

Every single local authority and pre-qual is different. Every time we get to a tender, the way they assess those tenders is different. There is no standardisation. They could be of 100% quality, and we still see an awful lot of that. A huge amount—over 50% of the tenders that we bid for nationally—are still just quality driven: the lowest price counts. That is still the case now. There could be some standardisation around there. Those areas could be mandated, I believe.

Alasdair Reisner: You touched upon the word “risk”. It is a huge one for local authorities, and understandably so, because they are right at the end of the finger, shall we say. We have pointed to them to say, “This was your fault. You are the one who exposed local authority taxpayers to a major overrun on a scheme.” Understandably, there is an unwillingness to do anything that in their eyes drives risk. The problem with that is that, in essence, risk costs money. If you try to push it into the supply chain, you will end up paying for that. There has to be someone who has an understanding of where the risk best sits. A classic example of this concerns the EU regulations, which you mentioned. The unwillingness to carry out early engagement with the supply chain is phenomenal in the local authorities, or at least among certain of the local authority sector. I think one of the recommendations from this Committee that would be good would be for a statement to go out saying, “This is what you are allowed to do.” A clear statement would let local authorities understand that they are not having their hands tied behind their back and

cannot engage with any supplier prior to procurement. They can; there are just rules that they have to understand.

Q176 Heather Wheeler: Briefly, because we are going to wrap this up relatively soon, I am interested in whether you have any other recommendations of EU regulations that could be rescinded, thinned down or better clarified so that other people know there is a quicker, shorter and safe route for local government procurement officers. If you want to write to us later about any of those rules, that would be brilliant.

Alasdair Reisner: I might take up that offer. That is specifically in relation to procurement regulations, is it?

Heather Wheeler: Yes.

Alan Rogers: Again, I will gladly write to you, but there is some work around values, longevity of contracts and real clarity. There is confusion around services and works contracts, and still procurement experts within local authorities do not really understand and, again, are paying huge amounts for consultants to come in, and that is another additional cost for them.

Q177 John Pugh: Just following through this business of risk, previous witnesses suggested that they were vulnerable from time to time to letters from big suppliers on big-City-lawyer notepaper, which is quite intimidating, I think, to somebody who is quite low down in the procurement chain. Innately, they want to gold-plate, and surely that makes them fairly risk-averse, and even if there are ways that they can engage with small businesses in advance, they might be loath to do that if there is going to be a big supplier looking over their shoulder. In other words, isn't the behaviour of local authority officers normal or comprehensible once you understand how big suppliers behave?

Alasdair Reisner: If you look at the position they are in, you are going to do whatever is required to cover your back against the potential for a claim further down the line. I just think they need a better understanding of what they can and cannot do—so not gold-plating. If they are in line with the law, it does not matter what letters arrive further down the line. It is understanding what is and is not within the letter of the law that is important.

Q178 John Pugh: We need people low down in the procuring chain to be pretty savvy about what they can and cannot do, and to be pretty robust in terms of the threats they may subsequently get. It has been put to me that at that level, people are more concerned with compliance with the rules than they are with getting value for their organisation.

Alasdair Reisner: This goes back to why there is perhaps benefit in having more specialist procurement teams who move around providing that service. They would know the lie of the land much better than those people who are not exposed to it regularly.

Alan Rogers: From a contractor's perspective, we do not like to challenge. There is reputational risk associated with challenge, and you do not really want to be tarred with that. We do not want to challenge every single decision. We do not really want to get under the skin and we do not look for chinks in the armour every single time. I think I talk on behalf of most high-quality national contractors.

Q179 John Pugh: Can you sense, though, those organisations that are vulnerable to challenge?

Alan Rogers: Yes, I do.

John Pugh: You can do.

Alan Rogers: They open themselves up for it. You just see the first advert; you can just drive a truck through it, to be fair.

Q180 Chair: On the issue of fraud and potential for it in local government, I think CIPFA has identified the possibility of up to £1 billion of fraud going on in local government procurement and contracting at present. Transparency International has raised concerns around the amount of outsourcing, maybe more partnership-type arrangements, local authority officers and the private sector getting closer together. Do any of those things concern you?

Alasdair Reisner: It would be very foolish not to have concerns about anything in relation to your industry that has the potential to have the negative impact associated with things like fraud and a lack of probity, either on the council side or the supplier side. Clearly, around five years ago our industry had the OFT inquiry, which was more to do with the building side than the infrastructure side that I work in; however, that certainly got the attention of the whole industry, and I would like to think that has instilled within most suppliers a very strong compliance ethos to avoid that kind of thing arising again.

At the moment, perhaps the largest area in which we are seeing fraud is actually in relation to payment of suppliers by clients, where you get third parties ringing up saying, “We have changed our address and our banking details,” and then all of a sudden the payments are going off to the other account, which is surprisingly closing down and the money disappearing. That is a huge issue for our members at the moment.

Dare I say it, one of the problems with fraud is that you only find out about it when it emerges into the public domain. However, that is the one area that I am very aware of at the moment, and it is quite a concern for suppliers in the construction sector.

Alan Rogers: It is real. It has happened to our business. We get the letter and a phone call—as you say, there is a change of address and bank details—chasing up a payment. It goes to the wrong person. That is the only case that I have seen. I think we have enough protocols and checks and balances within our business and within the industry to ensure that it has gone and is a thing of the past.

Bola Abisogun: It does come back to competence, doesn't it? When you think about it, checks and balances that should be in place to protect the public purse should be there, and the competency of the team, finance or otherwise, should also be there. FMB members per se very rarely get to that level of exposure with regard to public spend. For those that are in the public sector, there are more subcontractors at Tier 2 or Tier 3, so the likelihood of that happening is quite low. However, we are aware of Tier 1's, like my learned colleague to the left, who have suffered that fate, and it really does come back to competence.

Q181 Chair: There are two brief points to finish with. Do any of you have concerns about the change of auditing arrangements for local authorities? They are effectively going to appoint their own auditors in future. That might not lead to as rigorous an audit process as has happened. Perhaps you will be relieved about that—I do not know.

Alan Rogers: I am probably relieved, Chairman.

Alasdair Reisner: It is not something I have a great deal of knowledge of, to be honest.

Q182 Chair: Finally, in the past, when local authorities have provided services directly, the whole of the process was subject to the Freedom of Information Act. What about extending the scope of that Act to cover the quite significant amounts of money now that are being provided to contractors to deliver services from a private sector perspective? Is it reasonable to extend the FOI Act to organisations that are receiving large amounts of public money to deliver these services?

Alan Rogers: I think so. We have seen a huge move towards some proactive feedback, particularly around procurement exercises and the tendering that we do. We really want feedback on where we went wrong if we were not successful, and I see that local authorities have become much more aware of what information they have to provide, and I think contractors are really keen to know where they have gone wrong or why they were not successful. I do not think it is trying to open up another door to see if there is any possibility of a challenge. It is really about the learning experience. That has been of real huge value in the last year or two. I have seen a massive improvement there.

Bola Abisogun: The FMB would fully endorse that—the principle and the reality that it would deliver for all businesses of all sizes. Presumably, for those that are seeking feedback in simple tendering exercises, you do not win, you ask why, and you do not get a response.

Q183 Chair: However, businesses themselves are going to be a bit more under the spotlight in that they are going to have their information available to the public as well.

Bola Abisogun: That is fair. Companies House exists for the same reason.

Alasdair Reisner: I will have to disagree on this one, although only in part. We have done quite a lot of work in relation to the Freedom of Information Act, and certainly for an industry that has suffered with the OFT inquiry and issues like that, it is hugely important that we demonstrate as much transparency as possible. That sounds like an argument for.

The area where I would have concern is where companies are going through procurement; more and more these days their submissions are being judged not solely on the price they put forward but the quality of submissions that they put forward. Those are commercially sensitive documents, and therefore to put those in the public domain in essence takes away the commercial advantage of those companies. You might say, “That is good, because the rest of the supply chain comes up to the same standard.” However, companies do not solely work for local authorities or the public sector; they work for the private sector too.

Q184 Chair: The public does not have a right to know the details of a contract that a local authority has entered into.

Alasdair Reisner: It has the right to know, which is why I said “only in part”. There are large elements for which it should know, and I am not saying that any other part should not be known, but a test should be done on whether it is in the best interest of that local authority to disclose that, bearing in mind it may have a long-term impact on the competitive nature of the companies that will come forward for their works in future. If they are dissuading people from bidding for their works in future, is it in their interest to disclose that information?

Chair: That is something the Committee will have to reflect on in due course, I am sure. Thank you all very much for coming and giving evidence to us this afternoon.