

Budget and Performance Committee – 1 July 2015

Transcript of Agenda Item 5 - Police Outsourcing

John Biggs AM (Chairman): Now to our main business, which is item 5, police outsourcing. Can we welcome our two witnesses, who are Louise Bladen, Director of Home Affairs Value for Money, National Audit Office (NAO), who normally speaks to the Public Accounts Committee (PAC), as does Joshua Reddaway, Director of Commercial and Contracting [Value for Money]. It is interesting that at City Hall we have a Budget and Performance Committee which has about two-and-a-half staff. At Parliament the Public Committee has 932 in the shape of the NAO. That is roughly the case, is it not?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It has 830¹.

John Biggs AM (Chairman): We are getting there; we have only 827 to go! Our role is a bit like theirs, overseeing the Mayor's budget of £15 billion or so when you add it all up. You know all that.

Can we start the ball rolling with you, then? You can reply as a double act, if you like. You have done a bit of work in the NAO on police outsourcing. You can tell us what happens when they contract their functions out. It is a very broad question. What is your general experience? You have written a couple of reports on this.

Louise Bladen (Director of Home Affairs Value for Money, NAO): Shall I start off by just explaining what we have done and the context of it? In my role as Director of Home Affairs, part of that brief includes looking at the police. We are not the auditors of police. We are the auditors of the Home Office. To inform what we are looking at in terms of the Home Office's oversight of police, we do go out and visit forces and use them as case studies.

In the past couple of years we have done a joint piece of work with Her Majesty's Inspectorate of Constabulary (HMIC) looking at the experiences to date of police outsourcing. That was not assessing value-for-money arrangements in forces. That is not the NAO's role. That is for their external auditors. It was looking at the experience they had had in outsourcing and the lessons they had learnt.

More recently, in June we published a report looking at financial sustainability in the police. That was interesting inasmuch as it was not looking at outsourcing arrangements specifically but was looking at the different ways police forces are reducing their funding and making savings, obviously of which is outsourcing is one. I can talk more around the findings from those reports.

Do you want to say a bit, Joshua, generally about the NAO experience of outsourcing?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Yes. My responsibility is to look at the cross-government issues around commercial and contracting. It has been quite rocky recently in terms of the experience cross-government. There is about £40 billion worth of expenditure at central Government. About half of that - the data is not clear - is for services and so you might classify that as outsourcing. There have been some great successes in government.

John Biggs AM (Chairman): Sorry, what do you mean by 'services'? As distinct from ...?

¹ Following the meeting, the NAO confirmed that the current total staff is 779 full time equivalents and a complement of 812.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Goods. An awful lot of what they buy is paper, energy and things to keep the civil service running. Also, a lot of it is services directly to the citizen.

John Biggs AM (Chairman): You would hardly have a police service running its own paper mill, would you? It is more procurement than outsourcing, I suppose. I am not being pedantic.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Precisely. We think about half of procurement is outsourcing.

John Biggs AM (Chairman): Yes, I have you.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): There have clearly been lots of successes in government. What I can talk about is some of the difficulties there have been in central Government, which I suspect might be analogous to the police but I do not know. You would have to ask in that way.

John Biggs AM (Chairman): If you pick up your newspaper, you always hear the bad news stories. Does that imply they are all bad news stories? Of course, the answer is probably 'no'. You say it is not a happy story but is there a lot of happiness that we do not hear about?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): I am afraid being an auditor we tend to focus on the bad stuff. Clearly, it is not and there are some successful partnerships that have been going for some time. In every relationship, quite a lot of it is quite good, even when there are some things that are quite bad. For example, prisons have successfully had a mixed economy for two decades now from the launch of the private finance initiative (PFI) regimes. You have things like National Savings and Investments, which is, on the retail side, the largest retail bank in the United Kingdom in terms of the number of accounts that it manages. That is 100% outsourced and works very well for it. Yes, there are some successes out there.

Louise Bladen (Director of Home Affairs Value for Money, NAO): I would add to that that when we went and looked at the lessons and arrangements in a number of police forces as part of the work we did with HMIC, the majority of forces we spoke to that had undertaken outsourcing arrangements - and I can talk a bit more about the different types of outsourcing in the police - gave a largely positive response to that experience. The forces that had done that felt that those sorts of arrangements were delivering savings for them. They were getting better quality services as a result. That is very much their perspective rather than something that we have audited. That certainly felt like it had been a good experience for many of the forces who were doing those kinds of arrangements.

John Biggs AM (Chairman): There is an interesting juxtaposition here, of course, which is fairly obvious. You have one report on financial sustainability and the other one on private-sector partnering. Is it the case then that most authorities are pushed towards outsourcing essentially by the financial savings they will secure from that?

Louise Bladen (Director of Home Affairs Value for Money, NAO): The report we have just published on financial sustainability has shown that the savings that forces have been required to make over the last spending review period have been considerable, a 25% reduction in real terms in central Government funding. Forces have found a range of ways to make those savings. Outsourcing is clearly one. The other big thing that forces are doing is thinking about collaboration and the savings that can bring.

John Biggs AM (Chairman): ‘Collaboration’ would be, for example, where you have two adjacent fairly small police services and you might have a single personnel or procurement function or something?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It can be a range of things, actually. It could be that two neighbouring forces get together.

John Biggs AM (Chairman): The example being Warwickshire.

Louise Bladen (Director of Home Affairs Value for Money, NAO): West Mercia and Warwickshire is the really good example of that. What you also get is forces collaborating with local authorities. It is more of a regional collaboration than a police collaboration and so there are different arrangements that they have undertaken.

In terms of the outsourcing, it has been something that many forces have used to try to deliver those savings in different ways. What is interesting in the report is that when we looked at police forces’ understanding of their financial positions and what drives their activities and their services, generally speaking, they have a very poor understanding of what they do on a day-to-day basis. They do not know what the demand is, how much of that is crime or how much of that relates to dealing with vulnerable people and welfare issues. Without that really good understanding of the basic data of what they do, we have concerns about how they can transform their business operations and know the right decisions to make in terms of which route they go down and how much they are taking out.

John Biggs AM (Chairman): We are pointing into my next question about key findings and lessons learnt. If we take another simple example, the police service historically has been fairly hierarchical. It always is in its nature. It has people who deal with the personnel and they are somewhat separate from the exciting stuff with uniforms. They say, “Go away, make some savings and outsource yourself”. You are suggesting that perhaps one should have more of a systems review that says, “What is the thing that we are meant to be doing so that we can then understand better in order to work out whether a particular type of outsourcing or procurement makes sense?”

Louise Bladen (Director of Home Affairs Value for Money, NAO): That was the crucial finding from the report: that the police did not understand the nature of their business and the way that is changing. The headline figures show that recorded crime has reduced over the last few years. When you talk to forces, the new types of crime that they are dealing with - cybercrime and child sexual exploitation - are very different. They might need different skills to deal with them. They have been historically under-reported.

The other issue we noticed is forces reporting that they are picking up a lot more demand - although they do not have good numbers for this - just because other services are also reducing their funding. Police forces will tell you that at 5.00pm on a Friday they are the only force still going. If you have a vulnerable person who needs help or someone with mental health issues, it is the police picking that up rather than social services or whoever else it might have been in the past. Understanding that really complex changing picture is crucial to knowing what the right decisions to make about your functions and services are and how you transform a business intelligently.

The other point worth making from the report - which alludes to what you said about the staff who are dealing with the finance and non-operational bits of policing - is that we found those staff had reduced by 38% in numbers over the last spending review period. A lot of the cuts to police forces, rather being in officers, are in those back-office functions. It may be that those actually are the people who are crucial to helping transform business and you are losing those skills.

John Biggs AM (Chairman): It may be that they are quite efficient in the first place. Do you come across that?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It could be. Clearly, some forces are further ahead in this than others. A good example of a force we have seen that others might learn from is West Midlands. It picked this up very early. It has a range of things it is doing to reduce costs. Outsourcing is part of it. Also, it is really going back to basics in terms of their budgeting, understanding demand and making choices about its budget based on what is important to it and what is driving its demand. That learning from other forces could be really important here for the Metropolitan Police Service (MPS) because there clearly are some who are a bit further ahead.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): There has also been a bit of debate amongst procurement people about whether or not you should outsource a problem. Should you sort it out and then outsource it or should you outsource an issue? You can do outsourcing in order to create a change and as an excuse for doing a change. Outsourcing can work really well there. You could do it because you know exactly what the service is and you know exactly what that contract is and you outsource that. They are two very different approaches. The commercial strategy, the way you go about contracting, has to follow your business strategy, what exactly it is you want. You have to know which of those scenarios you are in and what it is you are buying, somebody who can help you with a change or somebody who can help you do what you are doing at the moment but do it better.

John Biggs AM (Chairman): We have, dated April 2015, the MPS's commercial strategy, which is probably a year or so after the decision that it wanted to outsource quite a lot of its services. It might have had a far longer gestation. Is that the wrong way around, then, or are you too polite to answer that question?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): I am not familiar with the strategy or the dates.

John Biggs AM (Chairman): The latter, then.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): A reasonable question to ask is: do they know what the business strategy is and do they have a commercial strategy that follows on from that?

John Biggs AM (Chairman): Then formal question then is: what are the first steps that the Mayor's Office for Policing and Crime (MOPAC) and the MPS should take when considering whether to contract out a function? The first part of your answer is they need to understand their business or demonstrate they understand their business.

Louise Bladen (Director of Home Affairs Value for Money, NAO): Across forces, we found that that is the single biggest thing they need to do to have that really good understanding. There are now some forces that are getting there on that. They could learn from forces that have already done this to an extent. There is also some work by the College of Policing that is starting to get into that territory of understanding demand. Learning from that will be important in starting to make those steps.

John Biggs AM (Chairman): They always give what I call the '800-pound gorilla defence', which says, "We are far bigger than everyone else and therefore you cannot compare us". How would you respond as an audit office to that sort of argument?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It is interesting when we have been out to forces. There are 43 forces in England and Wales. It is fair to say they are very different in times of size and the challenges that they have. When we have spoken to the MPS, it does describe what it sees as the unique challenges of policing a capital city. Certainly the scale it is dealing on absolutely swamps other forces. Where other forces can potentially get savings from collaboration, it may be something that is harder for a big force like the MPS. How do you do that when you are already so scaled up? There are some interesting challenges in being that huge force policing the capital.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Speaking outside of the police, I do not see that debate as any different from what we hear from any Government department that says it is unique and different from every other Government department. One of the things we did last year was a review of the commercial capability in the Home Office and the Ministry of Justice (MOJ). Given their totally distinct histories as totally different departments, they hate to be compared to one another. Doing that comparative work, in the end, they had to admit, really had helped them.

I am looking now at the way different departments are going about managing commercial capability. There is now an acceptance in the Government of something we have been promoting for a long time, which is that it should manage commercial capability at the centre. Commercial skills are too scarce in the public sector to allow everybody to do their own thing. That certainly does not mean taking away decisions from the departments. They need to be managing their more bespoke and complex stuff. Centralised procurement of common goods and services, the simple stuff, you can do centrally. The more complex stuff needs to be devolved. Getting that collaboration and sharing of skills has been really important. You are starting to see organisations like the Department for Transport, for example, which has a devolved model in terms of the different arm's length bodies (ALBs) in its group. Yet by acting as a group on the commercial side they are able to bring some of the best stuff from Highways England, the Driver and Vehicle Licensing Agency (DVLA), Network Rail and whatever together and be so much more than they could as individual organisations.

John Biggs AM (Chairman): The first step is about understanding the business. There is a very close second - they do not have to be in any particular order - which is about making sure you have the skill set to manage this process.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Absolutely.

John Biggs AM (Chairman): Possibly looking for it in unusual places?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): The second step would be to understand the market and then the third one would be capability. You could put them the other way around.

John Biggs AM (Chairman): They are your three magic steps?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): At the beginning.

Louise Bladen (Director of Home Affairs Value for Money, NAO): The market is an important point. What you get in the police effectively is a number of different forces all finding their own ways through the complexities of contracting and outsourcing. We completely appreciate the devolved nature of policing at the NAO.

What we do wonder about is where the commercial capability and skill set is coming from in terms of supporting forces with this. Who should be doing that? Is there a role there for the Home Office or for the College of Policing? In particular, managing the market and almost creating a market for the police and knowing who the players are so that police forces are not having to do this all themselves would be a helpful way of approaching that way.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): What we are aware of in central Government is that you have some outsourcing companies that got such a major share of certain parts of the market that the Government became overly dependent on them. That certainly appeared to be the case with Serco and G4S. You have other companies that are now moving into that market. You can see that the Government is actually making quite a lot of effort to diversify the number of players in the market. Of course, it is very difficult to say that they are behaving anti-competitively because it depends how you manage a market. Certainly these bids are open and other people can apply. However, there is that sense that the same players keep on winning over and over again. The more devolved it is, you also see certain companies get very good at hoovering up smaller contracts across devolved administrations. Then they get a very dominant position and a devolved body is not able to actually exercise its buying power against the providers.

If you do not understand the market going in and nobody has an overview of it, you could find as the police get more and more into outsourcing that they do become overly dependent on a few companies.

John Biggs AM (Chairman): That is an important part of the skill set, is it not? Does it need to come from the outside? Are there enough commercially aware people in the public sector?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): No, there are not enough. There are two big initiatives. One is to try to bring better people in. There is a whole issue around grading and pay, etc. Over the last ten years all the senior people in the civil service who have 'commercial' in their job title have been brought in from the outside. That creates its own problems about developing your own and the culture. Why would you join as a procurement function if there is no opportunity to develop into a leadership role essentially? The Government is now trying to deal with that. It is putting in place a Fast Stream and various other things. In terms of where the police are going to get commercially able people from, there is a lot of competition for good people.

John Biggs AM (Chairman): I am wondering a bit, actually. How long before you start getting savings on contracts? There is a 'piece of string' question for you.

Louise Bladen (Director of Home Affairs Value for Money, NAO): In the forces we looked at when we did the outsourcing piece of work, some of those contracts were in quite early days. Police forces were saying to us, "It is not jam immediately; it is jam tomorrow". You are not going to get those savings immediately. You have to look at it as a longer-term thing. That can create difficulties for forces in that the funding settlements they are getting are year-on-year. It is sometimes very hard to plan for that longer-term financial position if you do not know what you are aiming for yet, which is interesting.

The other thing that is important is to recognise that it is not just about the financial savings. It is sometimes about having an improved service. Many of the forces we spoke to genuinely felt they had gained something better and more efficient from the outsourcing they had undertaken. What they gained - if it was, for example, custody suites - had exceeded their expectations. They learnt a lot from the private sector in terms of how you might do this. There was learning and experience that was valuable beyond the financial savings.

John Biggs AM (Chairman): Very briefly, those who follow my ever-so-exciting career will know that I am obsessed with the question of measuring police productivity as against ‘bums on seats’ or ‘plods on the streets’ or whatever the term is. It follows from that that if you can improve the efficiency of a support service or the way it works, you might feed into frontline productivity. Do you have examples of that?

Louise Bladen (Director of Home Affairs Value for Money, NAO): Not directly. In the work we have just done on financial sustainability – how you measure police productivity and the way you link productivity to financial savings – efficiency was one of the areas we commented on. We just did not feel there was enough information and data being generated from forces about how you do that. I know that is something the HMIC and the Service is starting to think about. It will be interesting to see what happens there as the sector gets into this. It is not a single measure. It is probably a basket of measures. Certainly you need more than there is at present to make those intelligent decisions.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Can I just comment on your question about how long it takes to save money? That depends very much again, on what it is you are trying to achieve. Traditionally, contractors would come forward and say, “We can save you 30% just by outsourcing”. In some places I am sure that is true. I am not sure how they would back it up.

There is that fixed-price approach; you do a competition, set the price and fix it at that, and then the idea is you bank the saving. The alternative approach is to try to work out how you are going to get the productivity improvement from the contract over the course of the contract. I can see why the first is attractive. The problem then is whether you put the resources into managing it. That is where we then see difficulties coming up later. The second requires a much more collaborative approach and requires more investment in managing the contract. I want to highlight that there are two very distinct approaches to doing outsourcing.

John Biggs AM (Chairman): Can I ask you a crude question? MOPAC has told us that business process outsourcing – which is finance, procurement and human resources (HR) – will achieve savings of 42%. Are savings like that realistic? Your good auditor’s answer is that you cannot answer that question on the hoof, but go on.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): It will be difficult to answer that without knowing how inefficient it is in the first place and therefore whether there are 42% inefficiencies to take out.

John Biggs AM (Chairman): It is a stretching target.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): I do not know enough about it.

John Biggs AM (Chairman): We had a hand gesture suggesting agreement that it is a stretching target. Yes. My final two other tiny bits then are open-book contracting. This is one of the new fashions. How will we know if it is working effectively?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): You can read my report that is published today on open-book accounting. How do you know it is working effectively? Again, there are two different types of open-book accounting. There is the ‘cost plus’, where you are essentially paying for the contractor’s costs. That is how it has been used traditionally. I would need convincing that that was the right thing to do here. What we see as the value for open-book is improved transparency. One of the

questions you would want to ask is how transparent the police's contractors are to you. That is certainly the question that we would ask: what the PAC wants and how the PAC will go down to Government contracting.

There is also the question of what you do with the open-book information. The argument we are putting forward is that there is something about public sector contracts and the public procurement rules that means you are not allowed to just roll over a contract and nor are you allowed to terminate a contract. You end up with fixed-length contracts. The way that that sets the game means that actually there is asymmetry. You cannot break this relationship. You are in this relationship but you do not know how much money they are making and so how can you negotiate on even terms? If you are making a change to the contract, extending that contract or even re-letting that contract, you should have built in from the beginning the right to know how much money they are making out of it because you need that information to talk to them. How you know it is working is because you see improved commercial negotiations happening as a result of it.

John Biggs AM (Chairman): That is a very long-term outcome?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Yes, but this all has to be built in from the start. If you do not have the rights, it is not going to work. You have to have the metrics agreed upfront. You also need to know the benchmarks. One of the things we would say is that if you are interested in police productivity, having cost information alone is not very helpful. Being able to blend it with other bits of information, like productivity information, is when you really get very powerful data coming out of these.

John Biggs AM (Chairman): We can ask our massive research team to go away and look at your report.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): I will leave you a copy.

John Biggs AM (Chairman): That is even easier. My very, very final question is about governance. Indeed, our question is written in terms of what the steps are that MOPAC and the MPS should take. Obviously there is the accountable body and there is the police service. What steps should they take to make sure their governance arrangements are fit for this outsourcing venture?

Louise Bladen (Director of Home Affairs Value for Money, NAO): One thing that comes out really strongly from the outsourcing work we did - and it is related to governance - is forces were clear with us that it was not something that you could just let junior level staff do. You had to have that really deep senior engagement and really senior figures brought into this, knowing what they are talking about and committed to this. It sends the right signals to the market. It sets the tone for what you are doing. I would say in terms of governance to make sure that the right people in the MPS are in this from the beginning, that they know what they are doing and that they are the people doing some of the engagement with stakeholders. It almost becomes their job for a little bit of the time.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): A question the Government needs to think very carefully about at the moment is what it means to be a commissioning organisation. It is something local government has been grappling with. Local government is ahead of central Government on this. It is very difficult sometimes to engage the very senior people in a department. I am sure it would be in a police force as well because they are concentrating on other things.

You have to get the governance in place. There are two particular types. There has traditionally always been governance over the investment decisions, preparing the business case and whether you sign this contract.

What we have not seen is governance over the actual contract management after the decision to go ahead. That is absolutely the key. There are two types. Senior relationship management is not just senior people having a chat with the contractor. They have to be equipped with the management information to have very tough conversations about performance. The other one is the internal governance and having a person who is responsible for holding the contract management team to account, "What are you doing about this contract? How are you improving performance? Do you have everything there?" Those two things have been missing a lot in the public sector, traditionally.

John Biggs AM (Chairman): Could I summarise that as: a strong client, adequately resourced, with access to enough information, and ownership at a senior management level?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): Absolutely. Whatever you do, do not let just the commercial function run it. If it is important to your business, it has to be run by the business, not the commercial function.

John Biggs AM (Chairman): That is very, very useful. I have taken up three-quarters of that meeting. I am now passing over to Stephen, who is going to ask the right questions.

Stephen Knight AM (Deputy Chair): I have a couple of follow-ups to your points before I move on to my questions if that is all right, Chair?

I wanted to explore this issue of economies of scale. A big part of the driver behind outsourcing is often cited as economies of scale. As you said, the MPS is very large compared with most other forces. To what extent are there diseconomies of scale if you get too big? Maybe the issue about one company monopolising the whole market and therefore getting monopoly costs and monopoly profits passed on is part of the answer here. Do you have any general views about economies of scale versus diseconomies of scale in terms of different sizes of organisations and the benefits of outsourcing or indeed shared services for that matter?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): I think you are aware it is a very difficult question.

Stephen Knight AM (Deputy Chair): Yes, that is why I am asking you to answer it.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): You are right that it is not clear-cut. It is definitely a 'horses for courses' issue. There are times when it is best to go for a big player in the market. It is not just about economies as they are classically thought. It could be about bringing in some very specialist knowledge. If you are outsourcing staff and using Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), those people get access to networks outside of their organisation and careers they would not otherwise get, particularly at the level of mid-level skills and mid-level managers.

There is, however, a place for small and medium enterprises (SMEs). One of the Government's targets is to increase the number of SMEs that are getting into this space. The new procurement rules are quite clear that you should break it down into lots to try to let others in. I do not think anyone could give you an easy benchmark that says where there are economies and where there are diseconomies. It goes back to this thing about knowing your business and knowing your strategy. What exactly are you trying to get? That is what I worry about in some of the talk about SMEs and big players. What are you trying to buy and therefore who do you want to buy it from?

Stephen Knight AM (Deputy Chair): Presumably one of the diseconomies is sometimes you might lose expertise about what it is you are buying if the client is too far away from the service that is being delivered.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): That has certainly happened. I have even seen successful partnerships where one of the challenges the client has identified is it could no longer manage the service, which means actually managing the re-lets and managing the contract could be difficult. Where I have seen it successfully done is where that contract management is so hands-on that managing the contract is akin to managing the service. You are there but you are still the client. You are not shadowing. There is only one of you to 100 of them but you are still there so much that you are a manager onsite and you know what is going on.

Stephen Knight AM (Deputy Chair): That is helpful. There is clearly no one right answer in these things.

The second area was the issue of contract length. I wonder if you have general views on this. Clearly in the past where there have been contracts involving capital investment as part of the contract, you have seen very long contract lengths so that the provider can pay off their upfront costs over a long period. Increasingly I seem to be seeing service contracts essentially that have been let for ten years with no break clause in the middle.

I wonder whether you have any general view or advice about contract lengths. Clearly providers want as long as people are willing to sign up for, 10 and 20 years. No doubt they would be very keen on that type of contract. As the public sector wanting to ensure value, should we be keeping contracts very short?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): That is the Cabinet Office advice. Clearly central Government policy is to make contracts as short as possible. Three years is often quoted. It does depend if there is any investment, as you say. Those PFI contracts are 25 years. Not having a break clause in a 25-year contract is something that we would certainly ask why. Having a three plus one plus is another common model you get so that you can get those review periods. It depends very much again on what your strategy is and what you are trying to buy. Do not get locked into contracts because what your strategy is and what you are trying to buy will change over the course of the contract. However, it is expensive to re-let these and it is expensive to build up a new relationship with an organisation. There is a balance to be struck.

Louise Bladen (Director of Home Affairs Value for Money, NAO): There is an interesting point in the police about these contract lengths. Historically they have signed up to ten years and longer contracts. What I said earlier is that actually the funding position for forces is changing quite radically and quite quickly. You have had one spending review with quite significant reductions. I would say, on a best guess, there is another coming up with very similar, if not more, reductions to make. Lincolnshire is an example of a force that got into a contract and then has very publicly said about some of the difficulties of being tied up into a contract when its funding situation is changing. It is being mindful of that moving funding picture when you are going into contracting.

Stephen Knight AM (Deputy Chair): That is helpful. The MPS has experience of contracts for ten years for things like facilities management where there is no significant upfront cost involved. Clearly that can create a very cosy situation for the provider in the long term.

I better move into the meat of the question I was supposed to be asking, which is about sharing good practice around forces and how police forces can improve how they share good practice, particularly in the back-office

functions that we are talking about. Do you have a view on what should be happening to improve the sharing of best practice?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It is something that came out quite strongly from the financial sustainability work. At the moment the way the police forces share good practice - or things they have learnt from bad practice sometimes - is quite *ad hoc*.

Stephen Knight AM (Deputy Chair): Sporadic?

Louise Bladen (Director of Home Affairs Value for Money, NAO): It is sporadic. It is often one chief knowing another, effectively. It depends on those sorts of relationships.

What we were trying to push for in the report was having a more systematic approach to how you share good practice. There is a role there for someone in the centre, probably the College of Policing, about how you identify what good practice looks like. Who is doing that effectively in the centre and then who is making that available to other forces? It is not just forces relying on their existing networks to do that. There is something more formalised in place. That is important.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): There is no particular reason why best-practice sharing needs to be restricted to the police force. There is also a desperate need for people who are managing contracts across the public sector and also, actually, in private industry. There is a lot of interest in private industry in building these networks and sharing best practice. There is a lot of development of best practice that is needed in the sector.

Stephen Knight AM (Deputy Chair): Do we almost need a Serco user group or something for all the clients of these contractors to get together and compare notes?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): There is a Serco user group.

Stephen Knight AM (Deputy Chair): That is interesting. There is a very small number of big providers. The clients of those providers talking to each other is probably not something those providers would appreciate but might be in the best interests of driving good value amongst those contracts.

John Biggs AM (Chairman): Increasingly you read about contracts being awarded to European service contractors and not just the usual United Kingdom suspects. Perhaps you have not noticed that. Maybe you have not noticed in the context of the police service. There is greater diversity bubbling up there, which might make it a more competitive marketplace.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): There is certainly a trend over the 12 months leading up to the election of contracts being awarded to other than G4S and Serco. There was a conscious effort to get new providers to bid.

Stephen Knight AM (Deputy Chair): The final bit of the question I was supposed to be asking is about whether it would be beneficial for the MPS to be paired with another force in terms of sharing best practice, particularly with one that has had more experience than the MPS has had. Is the scale of the challenge facing the MPS so dissimilar to other forces that it would not necessarily be helpful?

Louise Bladen (Director of Home Affairs Value for Money, NAO): There is something in the scale issue. The force we saw when we did our case study - which is not on the same scale but is a big force - was West Midlands. It has been thinking really hard about its cost reductions for a longer period of time, I would say. It is not something it has just come to. It has a number of pathways to doing that and outsourcing is one of those. It was an interesting contract. It would be something that other forces might want to learn from.

Stephen Knight AM (Deputy Chair): At the very least, we ought to be talking to them and finding out their experiences?

Louise Bladen (Director of Home Affairs Value for Money, NAO): Perhaps talking to those bigger forces that have done something in this space would be beneficial.

John Biggs AM (Chairman): Do you know who drove that in the West Midlands?

Louise Bladen (Director of Home Affairs Value for Money, NAO): The Chief. That very senior leadership really stood out to us.

John Biggs AM (Chairman): The Police Chief and not the Police Authority Chief?

Louise Bladen (Director of Home Affairs Value for Money, NAO): To be fair, I would say both the Police and Crime Commissioner and the Chief were very engaged. Certainly the Chief Constable felt like the driving force behind the change programme it had gone through.

John Biggs AM (Chairman): Very useful. Is there anything else you want to tell us? Otherwise, we will despatch you to the cold air outside.

Louise Bladen (Director of Home Affairs Value for Money, NAO): Does that cover most things we wanted to talk about? I thought so.

John Biggs AM (Chairman): That is really very helpful. I had a very simplistic observation many years ago, which is so simplistic to be almost stupid. When I am trying to decide which of you to award the contract to, I am very powerful. The moment I have awarded it, you are potentially very powerful. That summarises in my mind how you need to think your way through these things. Is that too simplistic?

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): One of the biggest things I have focused most of my work around is the understanding of where you get value from procurement and outsourcing. Are you getting the value out of competing the service and getting competition? In that case, there is that view that you have all that power at the beginning. That also drives where you put all your investment and you put your best people in. After you have contracted, all you have to do then is get the contract you have agreed. You have done all the hard work.

That is not really our experience of public services. You cannot define 'public service' in a contract. It is a very complex thing. Yes, there is an imbalance of power afterwards but you have to work together and you have to manage them very tightly after the event because that is where all the value is. It is in delivering the service and not in signing a contract. Most contracts are not well understood or well read after the event, which is a problem in itself.

John Biggs AM (Chairman): That is very helpful. Indeed, I am very happy being wrong. It was a pretty stupid question actually because it highlights that it is the wrong way of looking at it, certainly. It is the right

way of describing what can go wrong in terms of having the right checks and balances, accountability and understanding what you are doing.

Joshua Reddaway (Director, Commercial and Contracting Value for Money, NAO): It is a lot of people's experience.

John Biggs AM (Chairman): In a lot of the public sector, it seems a fairly simple way of achieving savings or solving a problem. OK. Thank you very, very much for coming.

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