

House of Commons Public Accounts Committee: Strategic Suppliers Inquiry

Call for Evidence - BIFM response, June 2018

1. The British Institute of Facilities Management (BIFM) welcomes this opportunity to provide feedback to the Committee's Strategic Suppliers Inquiry.

About BIFM

2. The BIFM is the professional body for Facilities Management (FM). Founded in 1993, it promotes excellence in facilities management for the benefit of practitioners, the economy and society. Supporting and representing over 17,000 members around the world, both individual FM professionals and organisations, and thousands more through qualifications and training. We also provide guidance and support research that helps increase workplace productivity which contributes to raising standards, a happy workforce and healthy economy; and provide a platform for meaningful and evidenced debate on issues of importance.

About FM

3. "Facilities management is the organisational function which integrates people, place and process within the built environment with the purpose of improving the quality of life of people and the productivity of the core business".¹

4. Encompassing multi-disciplinary activities within the built environment, FM contributes to the everyday functioning of hospitals, airports, universities, down to ordinary businesses. By making the workplace as efficient as possible, the Facilities Manager has a major role to play in making the UK a more productive place². At the same time, without FM support, the economy would grind to a halt.

5. The health of the wider FM industry, which accounts for around 7% of GDP³, has a major impact on the overall UK economy and plays a positive role in supporting the Government's Industrial Strategy and societal programmes such as halting modern slavery.

6. Key facts about the UK FM industry:

- FM accounts for around 7% of the UK's GDP⁴
- The value of the FM sector is put at up to £120 billion⁵
- FM employs almost 10% of the UK's workforce⁶
- An effective workplace can improve productivity by up to 3.5%, potentially delivering a £20 billion uplift to the UK economy⁷

7. As the professional body for the FM profession, BIFM is engaged in the ongoing debate around outsourcing as it is one of the key models to deliver FM.

8. FM operates in many different ways, including outsourcing, which if done well adds great value to an organisation. FM is one of the strands of business support services that can be delivered through the outsourcing model, but it does not cover all outsourcing services.

9. The collapse of Carillion highlighted, amongst many other issues, problems which low margins and outsourcing to a small number of contractors can cause. The role of Government through its procurement strategy is material.

10. BIFM has submitted evidence to the Public Administration and Constitutional Affairs Committee's Inquiry on Sourcing Public Services: lessons learned from the collapse of Carillion. The Public Accounts Committee may find our submission, which can be found [here](#), helpful as it addresses many of the questions below.

11. Our evidence outlines how through changed procurement models, contracts and approaches and a wider application of the Social Value Act, greater value service delivery could be provided, representing good value for money for the taxpayer. We have included our recommendations below.

¹ [International Standards Organisation ratified definition](#)

^{2,7} [The Stoddart Review – The Workplace Advantage](#), (December 2016), 42p.

^{3,4} FM Business Confidence Monitor, (May 2015), 12p.

⁵ Value Judgement, Facilitate, FM World, May 2017, p. 49

⁶ Has Brexit hit home yet?, Insights into facilities management, Issue 17, p. 17-18

The points below are in response to questions from the PAC:

Government's role in the market

12. With Government being the biggest buyer of outsourcing services, Government has been a key driver for procurement trends and its procurement rules affect not just its direct contracts but also direct the playing field between B2B relationships. Additionally, its procurement policy has shaped the players, their number and size in the field.

13. The Government's procurement legacy of a continual drive for the lowest price has resulted in a spill-over effect of low margins from the public sector to the private sector. Realistic margins and greater recognition for the quality aspect of the service provided within the procurement stage is likely to lead to a greater variety of healthy suppliers, including SMEs, wanting to participate in realistically priced good service provision that can add real value to an organisation. The prevalence of low margins, combined with high levels of risk transfer, has increasingly deterred businesses, both large and small, from bidding and contracts have at times ended up being awarded by default.

14. While the Crown Commercial Service (CCS) aims to change this legacy of past Government procurement driven by the lowest price⁸, a long road is to be travelled.

15. Many of those that continue to participate in Government contracts, regardless of the pricing context, rely on finding ever more creative ways of spreading costs of management, supervision, central support etc. over multiple contracts with an increasing risk of underperformance.

16. The effects of low margins across the supply chain and within the private sector as a spill-over effect from the public sector contracts should not be underestimated. Perversely, it also led to the belief on the supplier side that bids would only be successful if they were kept low.

17. The make-up of the supplier market has also been greatly influenced by the use of Frameworks within Government Procurement. The use of these is associated with several problems, which are discussed in our [Public Administration and Constitutional Affairs Committee's Inquiry Submission](#). Of interest here is to highlight that such Frameworks tend to commoditise services while at the same time they are not good tools for setting requirements in relation to quality, which need to be particular to the work being tendered. In addition, they drive an acquisition strategy by the megaliths because they have tended to favour the large businesses that have the scale to match the contracts for which they are bidding. As a result, some businesses go on an acquisition drive to get the scale needed to obtain the contracts. This can result in Government putting its work to businesses which are over-burdened with debt and have to cut margins below what is viable to generate the turnover to support their debt.

18. Other procurement (competitive dialogue) and contract models (partnership contracts) are available that would go some way in resolving these issues. We already touched on this in our [Public Administration and Constitutional Affairs Committee's Inquiry Submission](#), but the importance of collaboration and partnership within a service contract setting is key to the value and service level delivered. After all, often the demands/requirements/costs related to the delivery of a contract will not become clear until the service provider begins execution of the contract.

To what extent does the Government use its unique customer status to optimise value for money and effective delivery?

19. Government has great potential to optimise value and effective delivery, but it will not achieve this until it steps away fully from the lowest price-based decision-making model.

20. The CCS is starting to move away from this model for FM by attributing greater weighting to the quality element in bids. However, the quality element for the current tender still requires little detail from the tendering companies to a point where bids between contractors can be indistinguishable. In addition, not all Government procurement will apply the same price/quality balance consistently and systematically at call off stage.

21. The Public Services (Social Value) Act 2012 is a great enabler to deliver greater value but its application is varied and inconsistent across Government. The scope of the Social Value Act should be extended both

⁸ A new CCS framework was launched on 8th January 2018 for the FM marketplace which aims to engage more SMEs in the supply chain and which aims to give increased importance to the quality and social value aspect within bids. Social Value has also been taken up in the new CCS contract.

vertically (through different stages of the procurement process, including tender stage/specification and contract management) and horizontally (to a wider range of contracts, including beyond public-private). It is also important to make a distinction between Central Government and Local Authorities. In general, there appears to be greater take up of the Social Value Act amongst commissioners at local level, than at central level. And likewise, at Central Government level, there is great variety in application of the Social Value Act across different departments.

22. Again, the CCS has developed a new contract which incorporates the Social Value Act, but it will take time to measure the uptake and impact of increased value delivery and indeed whether it goes far enough.

23. Another barrier to the uptake of the Social Value Act, and more generally the delivery of more 'value' is linked to the skills levels, or lack thereof, of those procuring and managing contracts within wider Government. FM service providers are keen to provide greater value through a variety of customer solutions and social value initiatives, but the commissioner needs to be receptive.

Does the Government have the right skills and resources to design, negotiate and manage contracts effectively?

24. While the public sector has access to many competent people, there appears to be consensus across the FM industry that Government across the board needs upskilling to properly procure and then manage their procurement contracts and get better value for money. Professionalising further the management of outsourcing contracts would make a difference and has the potential for deriving greater value from the contract. This trend has started in some Government departments, but it is not commonplace across Government, neither at central nor local level.

25. It is within the gift of Government to move towards partnership contracts as standard practice, with supplier and purchaser working together towards efficiency savings during the management of the contract. Often it does not become clear for the supplier where inefficiencies are possible until the supplier takes control of the contract to deliver the service. Such a partnership approach would therefore provide a better service and provide real value. Some of the benefits which could be achieved by such a partnership may not be direct financial savings, but productivity improvements such as a reduction in the number of sick days which might be attributed to a healthier and more engaging workplace. Such a result would bring real value to an organisation and a mechanism for valuing such a contribution could be provided within a partnership. This requires a 'smart client', skilled at contract management and willing to engage on an ongoing basis.

Performance and delivery of contracts by suppliers to Government

26. The CCS and Cabinet Office should check that contracts are delivering in practice; an improved feedback loop will ensure better procurement for the future.

27. A contract partnership approach will be especially important as the new CCS Framework will no longer use the NEC3 standard form of contract, which - while not entirely suitable for FM - did encourage cooperation and relationship building between the contracting parties. Without such a partnership approach, clients can, and often do, step away from collaborative working, merely applying and enforcing terms and conditions and reducing the added value outsourcing can provide. BIFM and NEC are currently working on an FM specific contract that will reflect these principles of collaboration, partnership and social value and this could be helpful for future implementation.

28. In addition, regular, 'external' and independent oversight of Government outsourcing should be provided by the NAO. Its status as an independent parliamentary body makes it most suitable to perform such scrutiny.

29. Several transparency measures are put in place by BEIS or CCS/Cabinet Office or are being strengthened, for example on prompt payment. These are to be welcomed, but they will need to be enforced and acted upon when businesses transgress and don't meet the standards set out.

Conclusion

30. The Government's procurement policy is key to their relationship with their Strategic Suppliers. In addition, procurement policy affects the market more widely, whether that is in the number of suppliers that operate within the market or the impact on the behaviour that encourages more value being delivered.

31. Not all procurement should be treated in the same way as while Government procurement would benefit overall from professionalising, there are 'smart clients' both within Government and in the private sector that work together with their suppliers on innovative solutions to provide excellent services through outsourcing.

These 'smart clients' do not just learn from their mistakes to increase the value they derive from their contracts, they also ensure they are suitably qualified and form close partnerships with their supplier to get the most value from their contracts.

32. BIFM has developed several recommendations in the field of procurement which, if implemented, would see the delivery of public services representing good value for money for the taxpayer.

33. To deliver good value for money, procurement must:

1. Move away from a focus on price: the efficiency savings made over the last few decades have meant that expectations around further price reductions have become untenable. While it makes good sense to have value for money, more attention needs to be paid to the quality aspects of the service delivery. The Public Service (Social Value) Act 2012 tells commissioners that when they are buying they should consider wider social, economic and environmental benefits. The application of this law needs to be demonstrated systematically and consistently in Government buying.
2. Enable realistic margins: tied in with the point above, more realistic margins will benefit the supply chain and will make Government procurement an attractive proposition once again. Currently many businesses do not engage in the procurement process because of the risk that is being transferred and the tight margins which could very quickly negatively affect their trade balance.
3. Professionalise: once a contract is negotiated, it needs to be delivered. Frequently those managing the FM service contracts do not have the skills to do so effectively. Often there is no shared objective for the delivery of the contract, or a basic lack of key data such as an asset register which means that potential further efficiency deliveries or innovative ways to improve the service delivery are missed. Professionalising and upskilling those that manage contracts would deliver better services and ultimately better value for money.
4. Ensure the enforcement of the Prompt Payment Code for all parties, including Government: everybody must be paid on time for the service they have been contracted to deliver. The livelihoods of people depend on this, as does the viability of companies.
5. Adhere to a strict code of conduct: minimum standards should be set and maintained both for public and private contracting.
6. Be transparent: there is a greater need for transparency and open book accounting. This allows for greater trust between partners which is key for the delivery of great value and service.

Further Information

Additional information and clarification can be obtained from Sofie Hooper, Senior Policy Advisor.

Email: Sofie.Hooper@BIFM.org.uk