

**House of Commons Public Administration and Constitutional Affairs Committee
Sourcing public services: lessons learned from the collapse of Carillion inquiry**

Call for Evidence- BIFM response, February 2018

1. The British Institute of Facilities Management (BIFM) welcomes this opportunity to provide feedback to the inquiry: Sourcing public services: lessons learned from the collapse of Carillion.

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.

3. BIFM represents and supports over 17,300 members around the world, both individual FM professionals and organisations. We do this through a suite of membership, qualifications, training and networking services designed to support facilities management practitioners in performing to the best of their ability.

4. We also provide guidance and support research that will help increase workplace productivity which will ultimately contribute to raising standards, a happy workforce and healthy economy, and provide a platform for meaningful and evidenced debate on issues of importance.

5. Based in the UK, BIFM's global reach has been formalised during the last few years by establishing regional operations in Ireland, the United Arab Emirates and Nigeria. BIFM is represented in over 80 countries across the world.

About FM

6. "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

7. 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.

8. 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 climate change targets and societal and modern slavery programmes amongst others.

9. Key facts about the FM industry:

- The UK FM industry 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 1-3.5%, potentially delivering a £20 billion uplift to the UK economy⁷

10. BIFM as the professional body for the FM profession is engaged in this ongoing debate around outsourcing for a variety of reasons. Often people consider FM and outsourcing to be interchangeable, this is not the case.

11. It is important to stress that FM adds value in lots of different ways and it does this through several different tools including outsourcing, which if done well, adds great value to an organisation. Likewise, 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.

12. While in due course the full truth will surface about what happened in Carillion, what we do know so far is that the FM arm of the business was not the cause of its downfall. That said, the FM sector must accept that

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 collapse has highlighted problems which very low margins and outsourcing to a very small number of contractors can cause.

13. Sourcing public services is obviously a great responsibility because of the impact on people and society at large, infrastructure and the UK economy. While the Carillion liquidation has many causes, one of the most important lessons that can already be learned within the context of this inquiry is the need for Government to upskill and professionalise those that procure and then manage public service contracts.

14. In addition, 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 over 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.

15. 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.

The below is in response to the specific questions from the PACAC:

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

- **What framework should the Government use when deciding what the most appropriate approach to sourcing a function or service is? Are decisions made systematically and consistently?**
- **What steps has, and could, Government taken to maintain a competitive market amongst suppliers? Does Government have the right skills to be able to procure and manage contracts with SMEs? Should contracts or tenders be structured differently? Are there other steps it can take?**

16. Government needs to step away from outsourcing on a lowest price-based decision-making model. 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.

17. The long history of government procurement decisions being based on the lowest price, has led to many businesses shying away from participating in government procurement and contracts have at times ended up being awarded by default.

18. At the same time, 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.

19. The use of Frameworks within government procurement is associated with several problems:

- Frameworks are generally too wide, ignoring the need for bespoke contracts and specific skills;
- Frameworks can and emphatically do, set general provisions on price, but are not good tools for setting requirements in relation to quality, which need to be particular to the work being tendered;
- Frameworks drive an acquisition strategy by the megaliths- because frameworks have tended to favour the large businesses that have the scale to match the contracts they are bidding for. As a result, some businesses have been seen to go on an acquisition drive, buying other businesses 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, who have to cut margins below what is viable to generate the turnover to support their debt;
- Frameworks and Invitations to Tender (ITTs) often set too short a period for bidding, which means that bidders have insufficient time to produce accurate cost estimates and are forced to estimate, sometimes optimistically, sub-contractor and other costs while under pressures to bid low;
- Another reason why bid prices often prove inaccurate is that there is often insufficient information on the facilities which will require managing. This makes it impossible to provide

⁸ A new CCS framework was launched on 8th January for the FM Market place which aims to engage more SME's in the supply chain and which aims to give increased importance to the quality and social value aspect within bids.

accurate cost estimates. For example, in the latest round of tender updates (12th Feb) the number of 'sample' building types to be priced has reduced from 25 to 13, the value of arriving at an average square metre cost across such a broad, albeit a smaller range of building types is still questionable. The result is a complex service being reduced to commodity pricing. While additional time and site visits can help to increase the accuracy of the bid, much of the true cost does not become clear until a supplier starts managing the facility; and

- Frameworks do not get managed well, which relates to the next set of questions.

20. Other procurement and contract models are available that would go some way in resolving these issues.

21. A competitive dialogue has been used successfully in other countries for government procurement as the interactive procedure would allow for innovative solutions to be presented that would be more bespoke for the services tendered. This model would also allow for a greater accuracy surrounding the costs associated with the future service delivery.

22. A Partnership contract in turn is an effective contract model that would derive real long term value from FM supplier contracts. Such a model would see agreement on a long term contract (often five years) at an agreed price. Supplier and buyer could then work together in partnership to look for efficiency gains year on year. This model would allow bidders to show how they would look to achieve these improvements and it recognises that opportunities for improvement often only become apparent once the service is being supplied. Because of the size of the frameworks however, this flexibility is often not possible. The FM Framework currently under tender may possibly see the use of this contract model at call-off stage.

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

23. There appears to be consensus across the FM industry that government across the board needs upskilling to properly manage their procurement contracts and get better value for money. Professionalising 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 at local level.

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

24. BIFM understands that such provision is being put in place in several different public sector organisations at present and, provided sufficiently expert resource is available to carry out the work, then this is a viable option. There is consultancy capacity in the FM sector to help ensure that public sector bodies can act as a 'smart client' and training is available through BIFM and others for those who need to upskill in contract management.

Arguably some public bodies have already moved too far away for this to be realistic or viable.

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

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

25. The supply side of the outsourced public services market has been too concentrated for some time. This is in large part due to the concentrating effects of the frameworks, which drive big businesses to implement acquisition strategies that allow them to become even bigger to match the scale of the market.

26. Then, because so few firms can bid at this scale, the same firms bid across all the regions making it likely that one or two firms will be successful in being awarded work right across the country.

27. At the start of the government's outsourcing programme, a lot of waste in service delivery was demonstrated, allowing big savings to be made by the first waves of suppliers. Then inefficiencies were cut, but the expectation that there was more fat to trim remained, leading to a downward pressure on prices to the point where the only thing that remained which could be cut were the providers' margins.

28. 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 suppliers' side that bids would only be successful if they were kept low.

- **Does the Government effectively monitor and manage risk for its largest suppliers, and does it have effective failure regimes in place? Does Government understand the public sector's cumulative exposure to individual contractors? Is there effective co-ordination between different public sector bodies in managing contractors?**
- **Do current procurement rules and policies allow risks to be managed effectively?**

29. Current procurement policy transfers a lot of the risk from the buyer to the supplier. It is questionable whether suppliers will, in future, be willing to accept this level of risk.

30. BIFM understands that the current FM Framework ITT is looking to reduce some of the risk transferred in part to entice and encourage new suppliers, including SMEs, into the supply chain. Terms and Conditions part of the FM Framework ITT are due to be updated by the CCS shortly but were not yet published at the time of writing.

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

31. The public sector does have access to some very competent people but one of the truths that the Carillion liquidation exposes is that government, both at central and local level, would benefit from upskilling and professionalising their procurement personnel and those managing outsourcing contracts.

32. Often, once the contract has been signed those who have brokered the contract, both on supplier and procurement side, step away and leave the contract management to those not involved in the procurement stage.

33. As indicated above, it is within the gift of government to move towards partnership contracts, where once a contract has been allocated, both supplier and purchaser work together towards efficiency savings. Often it does not become clear for the supplier where inefficiencies are occurring until the supplier takes control of the contract to deliver the service. Such a partnership approach would 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, for example, 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.

34. Membership of a professional body or the right qualifications demonstrating the skills needed should become a pre-requisite for those managing FM contracts within government.

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

35. CCS and Cabinet Office should check that contracts are delivering in practice; an improved feedback loop will ensure better procurement for the future. One approach could be to use partnership contracts as standard practice as they allow both supplier and buyer to work much better together 'as a partnership' to identify potential efficiency savings and implement a realistic strategy to work towards those savings while adding real value to the service delivery.

36. The above suggested 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 partnership approach, clients can, and often do, step away from collaborative working, merely applying and enforcing terms and conditions. This however reduced the added value outsourcing can provide.

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

4. Are there limits to what can be outsourced?

38. In principle, there are no real limits to what can be outsourced but there are times when one should decide against outsourcing services. BIFM believes that a conscious decision needs to be taken on whether outsourcing is appropriate for the specific circumstance. If outsourcing cannot provide a better service, for good monetary value and for less risk, then it should not be done.

Additional points/conclusion

39. While Carillion's liquidation is likely caused by corporate failings within its construction business, the wider FM sector recognises the problems that a culture of low margins and a too concentrated supplier market brings. Any meaningful discussion should therefore focus on procurement and how procurement practices and practitioners should be improved, upskilled and professionalised so that a similar situation could be prevented in the future.

40. We must be careful not to treat all procurement with the same brush 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 ensure they are suitably qualified and form close partnerships with their supplier to get the most value from their contracts.

41. In addition, we should not detract from the excellent service that many FM professionals deliver daily, whether through the outsourcing model or in house, enhancing the productivity of the organisation they work for and adding value to peoples' lives. The poor business practices by Carillion should not tarnish the wider FM profession that is a force for good.

42. BIFM has several recommendations for a more sustainable and diverse public service delivery, both within government and within the private sector. The recommendations below are by no means the definitive answer on the questions posed by the collapse of Carillion. Rather they are the beginning of a debate that needs to be held within the FM industry and the wider outsourcing industry in conjunction with government who is the biggest buyer of outsourcing services. Because of this position, 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.

43. For better service delivery, procurement must:

1. Move away from a focus on price; the efficiency savings made over the last few decades have meant that expectations around price 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 2013 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. Allow for realistic margins; tied in with the point above, more realistic margins will be felt across the supply chain and will make government procurement once again an attractive proposition. Now, 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. Often those managing the 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 the government. Everybody must be paid on time for the service they have been contracted to deliver. The livelihood of people depends 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.

Further Information

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