
Successful partnerships: The experience of central government

Roundtable seminar with Keith Davis, Director for Cross Government Studies, National Audit Office

Reform, 45 Great Peter Street, London SW1P 3LT
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Reform comment



Richard Harries,
Deputy Director, Reform

The pressure on public finances means that successful public service reform will remain a priority for UK central government in this Parliament and for years to come. Successful public sector reform is often delivered in partnership with private sector organisations. Central government spent an estimated £40 billion with third parties in 2012-13; 21 per cent of estimated total public sector spending on goods and services. These services ranged from procurement to provision of front line services across different departments and agencies. Since 2010 the Cabinet Office has tried to establish a firmer grip on supplier management across central government. The challenges are varied and include contract negotiation, performance management measures and information management throughout the term of the contract. Such a diverse and complex relationship needs careful management and investment on both sides for it to be a real “partnership”.

The National Audit Office (NAO) has conducted two studies recently on delivery of public-private partnerships; in these reports the NAO challenged government and its private sector suppliers to work together more effectively in the taxpayers’ interest and to address the issues behind the current lack of confidence in government’s use of contractors. Contracting defines the terms of the relationship and the risk and reward apportionment must be clearly laid out with acceptable costs, gains and measures; together with clearly defined roles and responsibilities.

If the “crisis of confidence” that exists in partnering is going to be addressed, central government must lead the way in tackling these challenges. This includes growing its own contracting skills base, making effective use of open book arrangements to monitor service delivery and ensuring open and fair competition in the bidding and tendering process.

There can be a perception of “current incumbent advantage” which is a barrier to fair competition. The taxpayer must be confident that there is a level of competitiveness which ensures that central government is getting value for money, and contract lengths must allow for this. Private providers should also be given confidence that the cost of the public sector customer will be worth the gain.

A true partnership is an agreement to cooperate and requires trust in all aspects of the relationship. If all these aspects align, mutual confidence in the contract will lead to appropriate accountability and trust. The open data agenda, as well as the growth of skills in the Civil Service with the newly opened Commissioning Academy and the Government’s commitment to increasing competition by making the bid process cheaper, are all steps in the right direction. However, change is a means to an end, not an end in itself, and more needs to be done to take advantage of these commitments to achieve an optimal partnership and value for the taxpayer. Tackling these challenges requires a public-private relationship that is informed and honest from the outset and communicative and trusting throughout, to ensure that contracts are both designed and managed to give the public value for their money. The size of this task should not be underestimated and there is still much more work to be done.

Tata Consultancy Services comment



Damien Venkatasamy
Director of Public Sector,
Tata Consultancy Services (TCS)

TCS is keen to contribute to the topic of successful partnerships between the public and private sectors. We have developed some significant partnerships with government now and with the benefit of five years of working within those partnerships, we can impart some hopefully valuable insights.

It is in the best interests of both government and industry for this topic to be advanced, so that measures can be put in place that improve partnerships, enabling confidence to improve and public-private partnering to move forward in a more positive manner.

Why would suppliers like TCS enter into partnerships with government in the first place, beyond the desire to create long-term revenue streams and the profitability attached? We understand that there needs to be a high level of accountability and traceability in dealing with public money. Government needs to answer questions as to why it's spending public money and is it spending wisely, which generates an additional overhead for the private sector in managing these contracts effectively. Therefore, it was not an easy decision for TCS to enter into this market because the overheads of running a public sector business, from a management and ultimately a cost perspective, are higher than the private sector.

The question was where can we create the most value within that market in terms of collaboration? This brings you to question: what does public service reform mean? Is it just the same services but at a cheaper price? If that was the answer we would not have entered into this market. We understand the imperative to reduce cost of public services, but private sector doesn't have a magic wand to enable it to do things in precisely the same way as they're currently being done and reduce the price.

Our real interest is in how can we transform those services such that they are lower cost but actually, they're also better from the perspective of the end user, predominantly the citizen? We are an IT and business process outsourcing company, our aim is to use of technology and process optimisation to transform public services in a way that lowers cost and improves user experience. Typically, we're seeking to improve accessibility, flexibility and speed of delivery through our services and applying our core skills. We are willing to enter into partnerships with government whereby we can bring to bear those skills, so that government and ultimately the taxpayer benefit and so that we can make a profit. We are a profit-earning organisation, and there isn't any problem in that at all ideologically. People understand that the private sector does need to make a profit in order for the economy to function.

When we partner with government, we look to the government to provide domain expertise of whatever that public service is, by providing us with access to people that really understand how these services run, what the pitfalls are with them currently, how they could potentially be improved. Sometimes there is this belief that the private sector has all the answers in isolation of the public sector, and that is simply not the case. We look for a collaboration whereby the civil service bring intrinsic knowledge of public services, and we apply IT and business process optimisation to improve those services. There is often a need for joint collaboration, as opposed to outsourcing something lock, stock and barrel.

Successful partnerships require absolute clarity about what the partnership, or collaboration, is there to achieve. What objectives is it going to meet? How will they be measured? Ultimately, was it a good use of taxpayers' money?

Both the public and private sector committing the right resources to the partnership is equally important, not just the quantity, but actually the right skills and quality within those resources. Continuity of those resources and the development of effective relationships between the public and private sector are also important in making partnerships work effectively. When we compare our private sector client base to our public sector client base, we probably see a richer set of skills facing off to us in the private sector and more continuity. The skills deficit we see in the public sector would be in commercial management and, whilst we're not looking for technical skills to mirror our own people, we are looking for some level of technical awareness, so that we can engage in a meaningful way about solutions we're proposing and why we're proposing to do things in a certain way.

Disaggregating big contracts and having multiple suppliers, is an approach we endorse, which we see in the private sector a lot. Our private sector clients would not have their business dependent on a single supplier. They would normally have multiple suppliers who are amongst the best at what they do in certain service areas. In a multi-supplier model, the skills you need are in service integration because you can't expect suppliers to self-govern in that model. We have not seen the service integration skills within the public sector that we have seen within the private sector to make that kind of model successful. Whilst the intent and rationale of government to move in that direction are very right, there is also need for skills to make it work.

Accountability needs to exist, both at an organisational level and at an individual level, as well as absolute clarity about who is accountable for what, how things are escalated within either the public or private sector partner and who ultimately makes the decisions. In all of our contracts issues

have arisen. Issues may arise within our organisation, or they may arise within the customer's organisation, or they may be totally outside of anybody's control. In the contracts that have worked well, there has been willingness to collaboratively sort problems out, rather than drawing a hard line and passing the problem to the other party. You need to fix it, so a willingness to work collaboratively is essential.

We firmly believe that to answer some of the problems the government has around reducing costs, whilst also meeting rising expectations of citizens in public services, particularly when compared to their interactions with the private sector, there is a key role for the private sector to play. However, there are some key conditions, as outlined, which need to be created in order for any such collaborations to be successful.

Attendees



Richard Bacon MP
Member, Public
Accounts Committee



Peter Campbell
Director of Corporate
Affairs, The Business
Services Association



Kerry Chapman
Regional
Director - Industry
Marketing UK &
Europe, Tata
Consultancy Services



David Crichton-Miller
Executive Director,
A4e Ltd



Keith Davis
Director, Cross
Government Studies,
National Audit Office



Tim Ellis
Business
Development
Director, KBR



Laura Gibb
Head of Police
Efficiency Team,
Home Office



Joel Glover
Section Head,
Property and
Commercial Policy
Branch, Department
of Health



Richard Harries
Deputy Director,
Reform



Christopher Jarman
Partner, Bevan Brittan



Tara Macpherson
Management
Consultant, PwC
and Former Senior
Researcher, *Reform*



John Owen
Director, Strategic
Markets, Serco UK
and Europe



Greg Rosen
Director of Public
Policy, Bellenden
Public Affairs



Tamsin Rutter
Guardian Public
Leaders Network



Katy Sawyer
Researcher, *Reform*



Damien Venkatasamy
Director of Public
Sector, Tata
Consultancy Services
Group



Richard Vincent
Head of the Corporate
Services Transformation
Team, Ministry of
Defence

Edited transcript

Keith Davis, Director, Cross Government Studies, National Audit Office (NAO), began by highlighting recent work by the NAO that found “a lack of confidence in government contracting and government management of contractors.” He stated that “generally the feeling is that people don’t know very much about the business that contractors are doing with government, with the public service, the rewards they’re making, the standard of performance that they’re achieving.”

Contracting with the private sector can bring benefits to government departments: “Whether it’s unique access to skills, whether it’s the flexibility that contractors can offer, whether it’s their ability to invest to spend to save over a longer term”. However there are a number of challenges to achieve effective partnerships. For example, “some public service markets don’t appear to have a strong level of competition within them”. Consequently, contractors are able to achieve greater amounts of revenue through “extensions, add-ons that were provided once the contract was up and running. For one of the four contractors, about half of their revenue was coming from extensions and add-ons.”

“**Generally the feeling is that people don’t know very much about the business that contractors are doing with government.**”

While there is considerable debate on the balance of risk and rewards in government contracting, NAO studies demonstrated “that the margins on the public sector contracts were perhaps lower than a lot of people might expect.” In addition he said “Even where contracts are open book – and that was the minority overall – in a lot of cases the public service client isn’t making any use

– they’ve negotiated open book arrangements into a contract.” But he noted that “whether that’s due to their lack of analytical capability and lack of understanding or what is at the root of it, we don’t necessarily know.”

A third challenge for effective contracting with the private sector is contract management. Too often the private sector takes an approach “that says, well, whatever business government is putting out there, we’re going to go grab it regardless of whether it’s necessarily our core strength. Certainly evidence has come out in our work and in other work of where the corporate headquarters of a particular contractor hasn’t necessarily had a grip on what is going on, on the ground in its organisation... I think the point for us was that the public sector customers should really be challenging their contractors a lot more about this.”

He did note that there has been positive change: “We certainly wanted to give the Cabinet Office credit for a lot of the things it has been doing. It has been working hard to get a more strategic grip on behalf of government of the relationship with the strategic suppliers. It’s been putting in some structures that have certainly helped to do that. It has been working hard to try and pull better data together so that we can take a ‘once for government’ view of the relationship with a particular supplier.” But, there remain risks: “We did point out a risk of going for savings from contract renegotiation. We understand that there is a short-term imperative to do that. Austerity demands it. That’s fair enough. We did want to point out a risk of short-termism in that approach. For us that certainly shouldn’t be at the expense of investing in the longer term relationship with suppliers and building a longer term relationship that might deliver savings, not in year one or year two but in year four or year five.” Capability was also described as a big risk: “contractors feel that the people they’re facing off to in government aren’t necessarily of equivalent capability to those they would if it was a private sector client. That comes up again and again. Certainly

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government has brought some impressive senior people in. It certainly has its headline people that it can point to or experts it has brought in. But I think that capability needs to pervade departments much more widely.”

Keith concluded: “We can debate whether it’s too strong to say there is a crisis of confidence in public sector’s use of contracting. There are certainly very significant issues and concerns – and legitimate ones – about this. And I think there is a lot that both government departments and the Cabinet Office and contractors themselves will need to do to restore that public trust and confidence in contracting.”

Damien Venkatasamy, Director of Public Services, Tata Consultancy Services (TCS), responded: “Why would we get into partnerships with government in the first place beyond the things talked about in terms of long-term revenue streams and the profitability attached? Because when we look at these contracts from a management perspective with government, they’re probably more onerous than we would see in the private sector. And we understand the reasons for that in terms of it is public money. There has to be the level of accountability and traceability there. At the end of the day, the government needs to answer questions on why it’s spending the money it’s spending, and is it spending it wisely. So we do understand the need for that, but it’s not an easy decision for a company



Keith Davis

like TCS to say actually we want to be in the public sector because the overheads of running a public sector business, from a management and ultimately a cost perspective, are probably higher than we see in the private sector.”

He identified why TCS sought to work with the public sector: “Typically the

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things that we’re looking to do is to see how can accessibility, flexibility, speed of delivery be improved through the core skills that we have as an organisation and how we apply those core skills. So a big point for us was we were only really willing to get into partnerships with government whereby we felt we could bring to bear those skills that government and ultimately the taxpayer would benefit from them and, last but by no means least, so that we could make a profit out of those.”

And how the relationship could be better: “I still think that when you get into these partnerships you need access to the people that really understand how these services run, what the pitfalls are with them currently and how they could potentially be improved. And those domain experts need to be made available by the government to work with the private sector. I think sometimes

there is again this belief that the private sector has all the answers in isolation of the public sector, and that is simply not the case.”

He raised five specific points regarding the experience of TCS so far: “Firstly it is really having clarity about what the partnership or the collaboration is there to achieve. What objectives is it going to meet? How are you going to measure that?”

“The second thing I would say is about committing the right resources to the contract. It’s not just the quantity. It’s actually the skills and the quality of those resources. I think the two key areas we see in terms of skills deficit would be around commercial skills to manage the contract effectively, and secondly technical skills.”

“And perhaps a third area I would offer up, given that I think the Cabinet Office are very much moving in this direction around disaggregating big contracts and having multiple suppliers, actually is something we see in the private sector a lot. Our big private sector clients would normally have multiple suppliers who are best at what they do in certain service areas. I think the government calls it the service tower model. When you move into that world, one of the skills you really need is around service integration because I don’t think you can expect the contractors to kind of self-govern themselves in that model.”

The fourth point was “continuity of resources – I think we quite often see senior people moving around, from our perspective, probably too frequently on some of these larger contracts. And I think more continuity of the key people on some of these engagements would be incredibly beneficial in terms of their success.”

And the concluding observation: “When I look at contracts that have been tough compared to ones that have worked better, there has probably been more of a willingness to get round the table and sort those problems out rather than drawing up stumps and saying, well, that problem resides with you. You need to fix it. So I think there does need to be a willingness to work through it collaboratively. Government partnering

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with the private sector is the right thing to do. But I think there are lots of conditions that need to be met and lots of areas for improvement within that.”

Richard Bacon MP, Member, Public Accounts Committee observed that these issues are not new and that these relationships have been challenging for so long, in fact years, that “you’ve got to wonder why private sector contractors bother.” He suggested that the reason was that “the revenues from these government contracts have gone up and up and up until they are extraordinarily significant. I don’t know whether it’s right to call it a crisis or not, but this has become so widespread across virtually all parts of the public sector that the consumers of public services just routinely expect it now, I think. It’s just part of the furniture.”

He noted that contractors recognise the public “cynicism” and that contractors “should be asking, why you aren’t loved for what you do and, to the extent that you are, make sure people know about it. The way to do that is to actually be motivated in the right way... If you’ve got buy-side contract managers who can’t manage and never look at the contract, the temptation to run rings around them and make more money is there because these businesses are, naturally enough, profit maximisers – something I think many public sector buyers still don’t really understand.”

He noted that there are lots of different ways of delivering public

services flexibly and that we are “in an environment where there is at least rhetoric about encouraging competition and encouraging new entrants” as “it has been too narrow a field”.

He concluded with the observation that “if you want to become a well-respected and loved part of the landscape, there is more to do on how you act, and there is more to do on communicating how you act so that people understand the reality”.

John Owen, Director, Strategic Markets, Serco UK and Europe observed that : “outsourcing and partnering with the private sector has

driven huge benefits for the economy, for the citizen, for the industry. It has brought more innovation than there would have been under a civil service that is stale. And I think the reality is that when you have a monopoly, irrespective of who delivers it, complacency sets in.”

He noted that “when you take public money you have to sign up to a different level of accountability” which means “a higher level of transparency, a higher level of open book accounting, a higher level of ethical leadership. It just comes with the territory, not because we want to; because I think society with the internet and more data around expects more.”



Richard Bacon MP

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He challenged the use of the word “partnership” because “we are not mature enough as an industry to partner together. Government is not mature enough to partner; nor are we. Partnership says you have a shared vision, you have mutual trust, you can contract for obscurity and risk, and there is a cultural alignment at the executive level that will transcend. And if you look from a technology perspective, most strategic partnerships last nine months. So they aren't that strategic.”

He concluded with optimism for the future and that: “The public want great public services at better value that evolve and are fit for purpose. And I think this ideological ‘who owns and who runs it’ is irrelevant. They want great services. And my request back to government is change the rhetoric. When you say we want cheaper public services, you get what you ask for. You want better quality services at better value. If you transition, transform and evolve, and there is that continual contract management, I think you'll get great public services.”

Tim Ellis, Business Development Director, KBR argued that outsourcers “really need to understand the place in which you're going to and be able to pick

what parts of your public sector you wish to deliver.” He explained “as part of that it is about learning about the trust and accountability. So we've been going on a programme of trying to deliver small stuff, build trust, understand the importance for our customer. To have your crisis communications in place, to have your governance and your oversight; and then your next job will happen on the success of your last job. So it's very, very simple service”.

He further suggested: “What we have also found is that as an entrant you have to accept or you have to recognise the fact that the client needs to change in what they're actually asking for. So don't

ask for how many public sector contracts have you have done in this, that and the other. Ask about the core capabilities that you can bring to deliver the particular function that you're actually looking for.”

And he concluded that on entering an environment, that will have been through significant change, you must establish an empathy with the people that you are having to work with as “it's not about the executive team”. Different contract types require different relationships and “the client team has to be able to understand that”.

Peter Campbell, Director of Corporate Affairs, The Business Services Association mentioned two



Tim Ellis

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points. First – the importance of the client and the process: “To get the innovation and to get the long-term partnerships, you need to focus on the beginning of the cycle and the end. And that is exactly what the Cabinet Office say they want to put resources into. And therefore the question is, is that happening and how to encourage that to happen.”

The second observation was: “Transparency is absolutely central and reflected in what the suppliers have said today and also what was said in front of the Public Accounts Committee in terms of transparency with open book accounting between the supplier and the government. Of course the other part of the transparency is with the public.” He observed that in that case “the problem is often not the supplier not willing to release the information. It’s often the government department that is not willing to.”

Greg Rosen, Director of Public Policy, Bellenden Public Affairs observed that these problems are “not new” and that senior people and management should play a larger role: “I struggle to remember senior Permanent Secretaries taking responsibility for these issues, attending something like this and putting this at the top of their priorities.” He suggested that until these problems are prioritised “I can’t see this changing because fundamentally too often contract management is either viewed as a ‘fire and forget’ sort of thing” and then “if it goes wrong, then we have this debate – usually the same debate all over again. But as has been said, the management needs to focus on the outcome.”

He argued that “the contracts are far too output specific” which can limit innovation. “The whole idea of contracting out is to harness the insights from outside. But you can’t do that unless you have the courage to go to an outcome-based contracting model” and



Peter Campbell

that this requires “serious people taking serious responsibility for those outcomes and managing their contracts.”

Joel Glover, Section Head, Property and Commercial Policy Branch, Department of Health responded with the context of the Department of Health which has had both successes and failures working with the commercial sector, but, also has “a relatively unique view as to what success looks like. You look at the NHS supply chain contract. You look at the NHS shared business services contract and you see two very different business models from each other that are delivering public services very successfully.” He

noted that “when the public sector as the buyer or as the contractor has a good knowledge of what it wants from the contractor or the business that it is trying to do, it can be successful.”

He added that these successes depended on “an accurate self-assessment on behalf of both the public sector as to what it wants from the service and the private sector as to what it brings to the table.” And that failure is a result of “a lack of that accurate self-assessment on the part of either party.” He stressed the importance of “the people at the table” from both sectors: “You get people that come in in the private sector who will prioritise that profit



Richard Bacon, Tamsin Rutter and Keith Davis

motive or won't understand why their business is successful, and that will cause the partnership to fail just as much as the public sector signing the contract and firing and forgetting."

Richard Vincent, Head of the Corporate Services Transformation Team, Ministry of Defence agreed with the points raised so far and in the case of the Ministry of Defence said: "by and large it hasn't put as much emphasis on contract management and contract management capability as we might have done in the past." However, he claimed the importance of contract management has now been recognised. As a recently appointed contract manager he was cognisant that "there is no sort of training or awareness provided" and that "from a Whitehall perspective I think we've got some distance to go in terms of capability" but "certainly the indications are that this is something that I think Whitehall recognises."

The second challenge he identified was "trust", including with stakeholders, despite the relative commonality of contracting: "I do think there is some issue around trust of the private sector to deliver some of these services, and the fact that they will make a profit doing that, that does need to be addressed." There remains scepticism "around the ability and value that the contractor brings". He concluded that "civil service reform has moved the debate on immeasurably" but there is still "something around the ideology that I think is worth unpicking in terms of why we struggle accomplishing this".

Richard Bacon MP, Member, Public Accounts Select Committee responded to the comments about the expectations of the public: "just because it's part of the landscape at the moment doesn't mean it will always be part of the landscape. Ideological alternatives will

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come forward if there isn't an improvement." He then suggested "It would be great to see suppliers coming along to government departments and saying: working with you represents a risk

Successful partnerships: The experience of central government

to us. We could end up on the front page of the *Daily Mail*. And here is how we're going to handle this, by the following degrees of standards of openness. Are you prepared to sign up to that?" He concluded that the client needs to be persuaded to be more open in the interests of public understanding.

“**The problem is often not the supplier not willing to release the information. It's often the government department that is not willing to.**”

Laura Gibb, Head of Police Efficiency Team, Home Office commented that “while people understand and respect the profit motive in the private sector, the ideological difficulty is reconciling that with the public sector ethos”. She listed some of these challenges as cultural: “the policing landscape has had to have a big debate about whether or not it's OK to let the private sector in and to what extent.” Linking this to the importance of legislation, she added: “we had legislation to extend powers for detention and escort officers which has created an awful lot of the kind of work that the private sector does with policing at the moment. There is no intention to go any further than that for this government... In the context of policing the public do have perhaps a stronger view on the role of the private sector and, the limits to which they are willing to see that work”.

Tamsin Rutter, Guardian Public Leaders Network noted that a lot of the market is taken by the big four suppliers and so asked “what people thought about smaller suppliers” as trends “are not encouraging smaller suppliers to get involved” citing the example of payment-by-results potentially creating cash-flow problems for them.

Christopher Jarman, Partner, Bevan Brittan responded that the Ministry of Justice has “worked hard to try and include SME and charity organisations” with “25 per cent of the Transforming Rehabilitation Programme to be absorbed by those smaller players”.

He also added that “There is an inherent difficulty about managing contracts once they are in being. My experience tells me that that is largely due to the fact that there is little understanding about risk. A contract is no more than an assembly of risk.” He followed this by commenting that: “the combatants around the table don't actually very well understand the risk and, more to the point, the cost of risk that is absolutely germane to the long-term well-being of these relationships, partnerships, or not, as the case may be. If you can't or don't really understand the risk or the cost of risk, there is no way you can manage it.”

David Crichton-Miller, Executive Director, A4e Ltd made three points: “Firstly, on the issue of transparency I don't feel as if there is any part of that agenda that we, the private sector, have a problem with” and suggested “we would all happily subscribe to being able to disclose as much as we are allowed to

“**When the public sector as the buyer or as the contractor has a good knowledge of what it wants from the contractor or the business that it is trying to do, it can be successful.**”

disclose. There is always the competitive confidential piece, but other than that, we have no problem with that agenda.”

Secondly, in respect to contract management “the reason you need to get your minds around it is because it so massively reduces our costs if you feel you can contract with a party that will then be sensible and grown up about making adjustments. So it lowers the risk premium.” He noted: “there is some outsourcing going on that is about outsourcing for effectiveness, of which the work programme is a truly great example because you basically more or less don't get paid unless you get somebody in to work.”



Laura Gibb

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Lastly, he commented that “most private sector providers would say that their relationship with their counterparts is actually very good” and “we don’t feel that there is a trust issue here” but added “there is a trust issue somewhere else.”

Keith Davis, Director for Cross Government at the National Audit Office (NAO) closed the session with the comments: “Focus on contract management is absolutely right. The point about clients preventing public transparency, I think that’s a really important point. We see that all the time in our work about how so quickly a government department will tell us: oh no, we can’t do that because it’s commercially in confidence.”

He concluded with the observation that a “comparison to how big private sector organisations do strategic supplier management... there is a sense that in other respects they would place more onerous burdens on contractors in a sense of they would expect to know a

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hell of a lot more about the management systems in their suppliers. They would ask really challenging questions. They would ask for evidence. They would ask to go look see how these things work in practice.”



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