Our ref: PS/0698

Meg Hillier
Chair Public Accounts Committee
House of Commons
London SW1A 0AA

21 December 2018

Dear Meg,

In the Government response to the Committee’s report “The monitoring, inspection and funding of Learndirect Ltd”, the Cabinet Office committed to report back on progress in developing a framework for identifying any risk that a commercial provider becomes large and essential to the delivery of public services that it cannot be allowed to fail, or requires special treatment if it begins to do so. In line with that, I wanted to set out the framework we have in place for identifying and managing large and essential suppliers and the steps we are taking to bolster it.

Government regularly contracts with private sector suppliers to deliver public services which may be deemed to be essential or critical, due to their ability to provide a higher quality or more cost effective service. The decision to contract for these services is made by departments after a consideration of a number of factors, including a fundamental make/buy analysis and a robust value for money analysis.

Companies sometimes fail; this is part of operating in a healthy, competitive market. Government suppliers only become too essential to fail when government is not appropriately prepared to deal with the failure. The example of Carillion shows that the collapse of a large supplier can be handled with minimal disruption to public services, even when that supplier provides important services to a range of departments and other public bodies. The integrity of public service delivery will always be the government’s top priority. The Chancellor of the Duchy of Lancaster has announced a number of measures to reform government outsourcing and rebuild public trust.

Nevertheless, we are vigilant about monitoring our reliance on individual suppliers, and are committed to ensuring that robust contingency plans are in place for all essential services.
Government Strategic Suppliers

Central government spends £49bn annually on good and services and strategic suppliers account for more than a quarter of this. Strategic suppliers provide many of the contracts that are deemed to be critical and therefore careful management of the strategic suppliers will in turn lead to better overall management of critical contracts.

The government centrally manages its relationships with a group of large and essential suppliers through the Strategic Supplier Programme and the Strategic Supplier Risk Management Policy. Strategic suppliers are generally those suppliers with contracts across a number of departments with revenue from government exceeding £100m per year and/or who are deemed to be significant suppliers to government in their sector. The current list of strategic suppliers can be found on GOV.UK. We recently concluded a review of this list; removing suppliers who no longer fit the criteria and adding further suppliers who fall within scope. We are planning to make further additions to this list in the coming months.

The Cabinet Office-led management of key strategic suppliers allows government to monitor, understand and manage its relationship with some of the largest and most essential suppliers across government on a cross-departmental basis. Strategic suppliers are subject to enhanced management and monitoring programmes precisely because the breadth and depth of government contracts that they hold mean that they are more likely to become essential to government as a whole. All strategic suppliers are therefore assigned a Crown Representative and some of the most complex strategic suppliers are also assigned a full time senior civil servant (Strategic Partnering Managers) for enhanced monitoring.

Strategic Partnering Managers (SPMs) are full time senior civil servants based in the Cabinet Office. SPMs work with departments, Crown Representatives and their respective strategic supplier to be the cross government focal point for the relationship with that supplier.

An important part of the SPM role is understanding the spread and nature of individual suppliers’ contracts across government. SPMs are currently working with 15 of the strategic suppliers, with a particular focus on those suppliers that provide critical and complex contracts. The specific areas of focus within this portfolio cover 75 contracts that are being managed across the programme. This portfolio of contract amounts to over £4.5bn of annual spend.

The SPM role complements the network of Crown Representatives introduced by the Cabinet Office in 2011. Crown Representatives are experienced business professionals who act as advisers to government on relationships with strategic suppliers and industries. They help government to act as a single customer.

Crown Representatives play a role in identifying risks in the relationship between government and its strategic suppliers. This includes the risk of supplier failure and the risk that government is becoming over-reliant on a single supplier or group of suppliers. Crown Representatives are able to do this because they take a cross-departmental view of supplier activity. Crown Representatives engage with supplier representatives on a regular basis and
in the event of a material announcement from the supplier. Additionally, we conduct an ‘annual review’ of each of our strategic suppliers which is followed up by a meeting between senior executives at the supplier and the Crown Representative.

**Departmental Strategic Supplier Relationship Management**

As well as the central strategic supplier programme, the Cabinet Office is working with central government departments to improve capability in the management of the most important suppliers to individual departments. Suppliers are chosen to be on a department’s list of strategic suppliers based on an assessment of their importance to the delivery of the department’s objectives, and a review of the size and scale of their contract(s) in the department. The [Government Commercial Operating Standards](#) also set out the need for departments to create and maintain strategic supplier relationship management (SSRM) programmes with their highest impact suppliers.

We have developed, with the input of departments and industry experts, a comprehensive best practice guide and toolkit for departmental strategic supplier relationship management (SSRM). This was issued in early 2017 and forms the basis of the supplier relationship management (SRM) approach being taken in both departments and arms length bodies (ALBs).

In addition to this, we are now directly supporting SSRM in some departments in conjunction with a SRM best practice consultancy. We are working with five departments in the first wave and have put in place joint work programmes for the individual departments with some of their most important suppliers. In the third quarter of 2018/19 we will commence the second wave of our programme with five additional departments and aim to conclude in 2019.

In parallel with the cross government strategic supplier programme, the departmental SSRM programme will allow departments to monitor and manage important suppliers in an intelligent and coordinated way.

**Contract Tiering Tool**

In 2017, the Government Commercial Function (GCF) developed a Contract Management Best Practice Guide with the support of government departments and the National Audit Office (NAO), to drive measurable improvements in the quality of contract management, the performance of suppliers and the management of risk. The guide aims to provide the necessary support and toolkits to empower the government’s contract management community to deliver high quality services and value for money on behalf of taxpayers.

One aspect of the guide is the classification of contracts according to the level of risk they present to contracting authorities if the contracts perform poorly. This allows departments to take a proportionate approach to contract management. All contracts should be tiered into the three categories of Gold, Silver or Bronze according to risk profile, complexity and value.
We are currently updating the tiering tool to align the way contracts over £100k are tiered across various departments. When segmenting contracts, departments would be asked to consider contract value, complexity associated with delivery of the goods/services, ability to switch to an alternative provider in a timely manner, potential impact of contract/supplier failure and associated information security risks. This will ensure that government has identified its higher value, more complex and riskier contracts (“Gold”) and that they are assigned the expert resources required to manage them effectively. Identification of these contracts will form the basis for identifying those suppliers which are important to the delivery of public services.

Resolution Plans

Suppliers with “Gold” contracts are likely to be essential to the delivery of public services and these contacts require robust contingency plans in the event of supplier failure. We are currently developing plans to require suppliers of “Gold” contracts and public sector dependent suppliers to provide resolution planning information (“living wills”); these will allow us to understand the implications of a supplier’s insolvency and help enact contingency plans to ensure the supplier’s continued delivery of critical public services for a short period to permit an orderly transfer of those services to a new supplier or in-house. The existence of robust contingency plans for critical contracts is key to ensuring that no supplier becomes too large or essential to fail. It is important that contingency planning starts early and that it is proportionate to the impact and likelihood of contract/supplier failure. This is due to the additional cost and resource burden this is likely to place on a contracting authority and the impact of the additional compliance burden on suppliers’ appetite to bid for new contracts.

Contract and Spend Insight Engine (CaSIE)

In order to improve our visibility on spend and contract data we have launched a new central government contract spend database. The Contracts and Spend Insight Engine (CaSIE) is designed to bring together multiple sources of commercial data into one place and allow for simple yet powerful interactive reports to be produced to turn this data into actionable information. CaSIE takes data from existing systems including the publicly available information on tender activity and contract awards on Contracts Finder, and supplier spend data from sources including Bravo (which aggregates invoice information from across government to provide a database of government spend with suppliers). CaSIE aims to create a comprehensive contract-level and supplier-level picture of spend and commitments across government. Further iteration of this platform is planned to improve its performance.

CaSIE allows individual departments to understand and track information on contracts and suppliers in their departments and across government. Further, we are currently consulting on an added functionality within CaSIE that will segment contracts according to their risk classification and performance. This will allow departments to better understand the cross government interdependencies of contracting with certain suppliers.
Commercial Capability

Improved commercial capability in the civil service will help government to monitor, manage and interact with suppliers in an intelligent way. We are taking action to increase commercial capability across government, led by the Government Commercial Function (GCF) in the Cabinet Office. Upskilling commercial professionals will allow us to be more dynamic in our relationships with suppliers, and help avoid poor commercial outcomes. The commercial capability programme has already made considerable progress and we are committed to going further.

Some steps taken to improve commercial capability include: recruiting from industry, a new pay and reward model for senior staff administered by the Cabinet Office, a rigorous assessment of commercial skills for all senior commercial staff and high quality development for all staff.

We have implemented the Assessment and Development Centre (ADC), which is designed to rigorously assess all of our mid and senior level commercial staff to professional standards of business acumen, leadership qualities and technical skills. Since being established, more than 1000 commercial staff have gone through the ADC. We are providing wider access to the ADC, giving Arms’ Length Bodies (ALBs) access to learning and development programmes, and facilitating talent moves across/within government. By doing this, we can embed improved commercial capability across the wider public sector, as well as central government.

It is important that once contracts are in place, they are managed well to get the best out of them. Good contract management is vital in mitigating against contract or supplier failure. In February 2018, we published the Contract Management Professional Standards which provide guidance to help any civil servant who works with third-party suppliers or contracts, even if this is only a small part of their role. It segments the capability of contract managers into three categories: Foundation, Practitioner and Expert. Individuals in the “Expert” category will be responsible for managing the most complex contracts in departments which are likely to involve large or important suppliers. We are planning to have all staff at “Expert” level managing “Gold” contracts to be trained and accredited by the end of 2019. We will also provide training to staff at “Foundation” and “Practitioner” level and are aiming to accredit all 30,000 contract management staff by the end of March 2022.

I hope you agree that we are undertaking the necessary reforms to identify and manage our exposure to individual suppliers and ensure the continuity of public services.

Oliver Dowden CBE MP