Our Ref: CDL/2640

Bernard Jenkin MP
Chair of Public Administration and Constitutional Affairs Committee

Meg Hillier MP
Chair of Public Accounts Committee

House of Commons
London
SW1 0AA

20 February 2019

Dear Bernard and Meg,

Reforms to Government Outsourcing

Following Carillion's liquidation in January 2018, the Government’s response ensured continuity of key public services. However, there has been increased scrutiny on the benefits and risks associated with the use of private sector to deliver public services. In light of this, we have been reviewing our outsourcing processes and considering lessons learned.

We have developed a package of reforms to rebuild public trust in outsourcing by providing greater transparency, increasing our resilience to supplier failure and improving our decision-making. This will ensure that outsourcing projects are set up for success right from the start. This package of reforms also addresses some of the recommendations set out by the PAC report (Strategic Suppliers, HC 1031) and PACAC report (After Carillion: Public sector outsourcing and contracting, HC 748).

In June 2018, I announced some aspects of these new measures in my speech to Reform and provided further details in my speech to the Business Service Association in November 2018. Today, I have announced the publication of new guidance for officials to help government work smarter with industry, set up contracts up for success and build a more diverse supplier base. The new guidance includes:

- **Outsourcing Playbook** and associated guidance - This will allow departments to make good outsourcing decisions, achieve value for money when outsourcing, and is aimed at everyone involved in the outsourcing of a public service.
● **Supplier Code of Conduct** - We have reviewed and updated the Supplier Code of Conduct to ensure that it not only set out the behaviours taxpayers expect of Central Government's suppliers but includes what suppliers should expect of government.

● **Guidance on Corporate Financial Distress** which suggests practical steps to take where contract managers have concerns over a supplier's financial health.

The principles of the “Outsourcing Playbook” will apply to all government outsourcing with a particular focus on complex first generation projects and subsequent generations where the service is being delivered in a different or novel way. The eleven key policies published today in the Playbook will ensure that the government gets more projects right from the start. It will promote a diverse and healthy marketplace - and we will have ‘living wills’ in the unlikely event of things going wrong.

In order to ensure that we take into account the wider social benefits to be derived from government contracts, we are extending the requirements of the Social Value Act in central government so that all major procurements will explicitly evaluate social value, where appropriate, rather than just consider it.

The Public Accounts Committee recommended that we review our approach to managing current strategic supplier risk. The revised approach will see the introduction of a new Memorandum of Understanding between the Cabinet Office and Strategic Suppliers that reflects a more mature relationship with industry, and provides greater flexibility in how Government manages situations.

In order to build the capability within Departments to outsource effectively and manage outsourced contracts, we are undertaking a programme to accredit and train 30,000 contract managers across the Civil Service by the end of 2021.

Taken together, the measures in this reform package is key to delivering value for money for taxpayers when services are outsourced, strengthening our resilience to supplier failure and rebuilding public trust in outsourcing.

Rt Hon David Lidington CBE MP