

# Speech: Chancellor of the Duchy of Lancaster speech to Reform

## **Introduction**

Thank you very much for that very kind introduction. It is a pleasure to be back here at Reform this morning. As Andrew said, it's about six months since I was last here, in December last year in my previous role as Justice Secretary.

I said then how frightening it is that Andrew and I have known each other for so many years. You can illustrate that by the lack of hair on our heads since we first encountered one another.

But my locks have become even more grey and sparse, but Andrew maintains an envious youthful sheen – symptomatic of Reform's continuing relevance to the public services debate in this country.

What I realised when I was Lord Chancellor and Justice Secretary was that you can have both good and bad in both the private and the public sectors. And that's something that almost every constituency MP experiences in handling their case work week by week.

And public service reform is something that should be at the forefront of everything government does in each department.

So for the ongoing work that you do in this space, Andrew, all of us in this room are grateful.

## **Rebuilding trust**

Just over a month after I last spoke here, an event took place in all of us in this room are very familiar. Just a couple of hours into my new role as Minister for the Cabinet Office, the department was faced with one of the biggest challenges that it has probably ever confronted.

The bankrupt-sy and liquidation of Carillion serves as an important symbol of what I want to talk about today.

And that is the need for trust in relationships.

Trust not just between government and the private sector, which provides some of our most essential public services.

But trust between both government and the private sector and the people of this country.

They are the ones who benefit if we do our jobs well – and they are the ones who lose out if that level of trust between us is damaged.

## **Our response to Carillion**

When Carillion went into liquidation in January, it represented a huge risk to some of our core public services.

But the government's response, grounded in good contingency planning, ensured that the delivery of public services continued smoothly, with disruption kept to a minimum.

The hospitals were cleaned; the school meals were cooked and served; and the railways continued to be built and repaired.

I want to put on record very clearly my thanks, both to the civil servants and contracted workers who rose to that challenge in very difficult circumstances.

It was also right that we did not bail out Carillion for its own losses – and right not to reward failure.

It's always deeply regrettable when any company fails. Whether that's an outsourcing company or company doing business only in the private sector, we have to acknowledge the distress the event causes to employees, families, pensioners, and suppliers alike.

But when a private sector company fails, it is that company's directors, shareholders, lenders who should bear the brunt of the losses. And taxpayers should not bail out a private sector company for private sector failings.

## **The benefits of outsourcing**

Carillion's liquidation has been used by some however to question the entire case for outsourcing the delivery of public services to the private sector.

As the Prime Minister outlined on the steps of Downing Street nearly two years ago, this government is driven by a single mission: to build a fairer society which works for everyone – no matter where you come from or where you were born.

And that means a society where people from all parts of our country can access the best public services, and for those services to run efficiently and smoothly for them and their families.

Whether that service is managed and provided directly by the public sector, by private companies or by voluntary organisations, what matters is that the service works for the people who use it in their everyday needs. While at the same time providing value for money for the taxpayer.

And whether it is running our hospitals; operating call centres; building our railways; or supporting our Armed Forces – the private sector has a vital role to play in delivering public services, something which this government will never cease to champion.

Indeed, successive governments have chosen to utilise the skills of the private sector since the 1980s, to the extent that the public sector now procures nearly £200 billion a year from private companies to provide public services.

It is worth noting too that the UK does not, despite what some might say, outsource disproportionately more than other countries.

The UK actually spends less on outsourcing than other European countries such as Germany, Sweden and the Netherlands.

In the Netherlands for example, 60 per cent of public organisations outsource IT services and public authorities are looking to outsource traffic management systems to keep Dutch roads flowing.

And in Sweden, a country with some of the highest educational standards in the world, half of higher schools are free schools and privately owned.

And it is also worth noting that outsourcing is standard practice within the private sector itself.

When I worked for British Petroleum and Rio Tinto back in the 1980s, things like production of the company's internal magazine and IT and a lot of computing arrangements were all done in-house.

But now, in those as in so many other private sector companies, huge amounts of work are outsourced to other specialist contractors.

Carillion itself had 67 per cent of its business with the private sector, compared to 33 per cent with the public sector.

The benefits of outsourcing are clear – and need to be restated.

First, outsourcing delivers economies of scale that mean services can be provided more efficiently, at lower cost and at better value for the taxpayer.

For example, pensions administration for nearly two million teachers have been outsourced since the 1990s – with administrative costs less than half of that of administration of other comparable schemes.

And research commissioned by the previous government has shown that outsourcing delivers savings of some twenty to thirty per cent, compared with bringing services in-house.

Second, open and fair competition within free markets encourages creativity and innovation, meaning fresh perspectives can be applied to existing policy challenges.

For instance, firms such as Babcock are transforming the training model for the Royal Engineers in the armed forces, through modern training methods and improved first time pass rates.

And when we renewed our contracts for court interpreters last year, we turned to a new supplier that offered interpretation over video links, saving people – the users if the service – and court staff both time and travel costs.

It is only through lively, innovative and dynamic markets that high-quality, effective services are created – and often through markets within markets, and sectors within sectors too.

Third, the private sector brings a range of specialist skills, world-class expertise and deeper knowledge to bear on what can be complex issues.

Different government projects require different skill sets – be it IT or construction; health assessments or prison management. Those skill sets only made possible through the mechanism of choice within a free, competitive market.

For instance, we are exploring how automation can help us reduce the costs of clerical processes, by using skills previously used on behalf of banks and insurance companies.

So while government has considerable resources at its disposal, it cannot do everything by itself. It needs the dynamism and innovation that only a healthy, diverse marketplace of suppliers can provide.

## **The dangers of nationalisation**

There are some however, who believe that government should and must do it all – the state is the answer to everything.

These critics of outsourcing are swift to use events like the collapse of Carillion to declare that no public service should ever harness the skills of hard-working businesses up and down this country to provide IT services or help run our hospitals.

Not only that, those same critics would actively set about bringing virtually every single existing private sector contract – no matter how successful – back under state control.

It would amount to the biggest wave of re-nationalisation since the dark days of the 1970s, when even the Gleneagles Hotel in Scotland was in state hands until 1981! And such things as Thomas Cook travel agency and the pubs in Carlisle were part of the public sector.

There would be no care for how members of the public would be instantly disrupted overnight and no consideration for the spiralling costs that consumers and businesses would face across the United Kingdom.

And no thought whatsoever how it would be paid for. A cautious estimate puts it at some £176 billion – the equivalent of 10 percent of our national debt, or over £6,000 per household.

All this they would do not in the name of better quality services but of a

philosophical aversion to anything that could be better done by businesses.

Pursuing instead an ideological obsession with everything instead being controlled top-down by the state.

I've had a few years in politics and my view is that ordinary working people are pragmatists – and that makes in government people who should be pragmatists as well.

Focused purely on how we keep the roads the public use in good condition; how we run schools to deliver the best results for children and their parents; and how we look after patients and staff in hospitals.

But if we do accept the fundamental role that markets play in our society then it is our responsibility to ensure that those markets work for people, and act in their best interests.

Nationhood and community means having ties that bring us closer together – citizen, business and government.

And at best our public services do that: they are vital local and national institutions that bring people together.

Institutions like our great National Health Service.

But the rise of technology and a shifting economy are fundamentally changing how our society functions – and is putting that trust and that unity between us at risk.

That is why it is the duty on all of us to build that fairer society – which has trust at its core.

## **Carillion's legacy**

If we are to do so, we must start by acknowledging Carillion's liquidation has crystallized issues which have, at times, informed that breakdown of trust.

For too long, governments have been suspicious of the right of companies to make a fair return on their investment.

For too long, businesses have not trusted the government to look beyond pure cost, or to apportion blame fairly when things go wrong.

And the result is that, for too long, the public has understandably begun to question whether private sector involvement in public services is working for them.

And therefore I see it as the duty of both government and industry alike to restore, repair and rebuild that trust between us.

So that we make outsourcing work in a twenty-first century world and we put values at the heart of our public services and so ensure they have the

confidence of the people whom we all serve.

Since 2010 we have made great progress in doing so, increasing transparency and bringing suppliers closer to government.

But there is always more we can do. And that is why this morning I am setting out new ways in which public services are contracted and delivered.

Ways which will ensure that the outsourcing market is better strengthened, diversified, challenged and protected as a result.

## **Strengthening the market**

Let me start with a few words about how we might strengthen that market.

Our starting point is to recognise that we need to get outsourcing right from the start.

There are several things we can do to make that process itself easier for both government and supplier, and so make the market fundamentally stronger.

First, recent events have made clear that government must have proper contingency plans to allow a supplier to fail, while ensuring public services are still delivered. We will now require all key suppliers to develop what are known as 'living wills', which will enable contingency plans to be rapidly put into place, while ensuring services are still delivered.

Second, it is important that we maximise the number of alternative suppliers and encourage new providers, in the event that a supplier does fail. We will therefore take the lead by requiring government departments to follow for the first time a 'playbook' of guidelines, rules and principles that will encourage new entrants to the market and build mixed markets of suppliers.

Third, we need to make sure that suppliers can be held to account by the public for their performance. Starting with our most important contracts, we will increase transparency by requiring a number of key performance indicators to be published – such as response rates, on-time delivery and customer feedback – so that taxpayers can monitor outcomes, and track how their money is being spent. I think this is in the interest of government and suppliers alike. And we will look to make further transparency initiatives in the coming months.

And fourth, it is clear that in order to outsource effectively, the government needs the necessary skills and expertise to do so. We will therefore ensure that all 30,000 contract managers across the Civil Service can receive the high quality training they need to undertake the proper management of contracts and suppliers.

## **Diversifying the market**

While these measures will improve how the contracting process is carried out, we must also recognise the need for a more diverse marketplace itself.

It is clear that competition for contracts has often favoured large suppliers, with too narrow a focus on value for money.

But we want to see public services delivered with values at their heart, where the wider social benefits matter and are recognised.

And that means government doing more to create and nurture vibrant, healthy, innovative, competitive and diverse marketplaces of suppliers.

A marketplace that includes and encourages small businesses, mutuals, charities, co-operatives and social enterprises.

And therefore harnesses the finest talent from across the public, private and voluntary sectors.

We have already set out a range of measures to remove barriers to small businesses, such as excluding suppliers from government procurements if they cannot demonstrate fair payment practices.

And we are backing the technological firms and disruptors of tomorrow through our recently announced £20 million GovTech fund.

But we want to see more organisations like PossAbilities in Rochdale, a social enterprise which is supporting people with learning disabilities and young people leaving care. Or Chiltern Rangers in Wycombe, which is dedicated to protecting the natural environment and enhancing local communities.

That is why I can announce today that we will extend the requirement of the Social Value Act in central government to ensure that all major procurements explicitly evaluate social value, where appropriate, rather than just consider it.

We will also require all departments in central government to regularly report on the social impact of new procurements, and we will train all 4,000 of the government's commercial buyers how to take account of social value and procure successfully from social enterprises.

By doing so, we will ensure that contracts are awarded on the basis of more than only value for money – important though that is – but a company's values too, so that their actions in society are rightly recognised and rewarded.

## **Challenging the market**

And as well as a more diversified market, we also believe that all companies should better reflect the society which they serve.

If we are to build a fairer society, in which the public has greater trust in businesses not only to make a profit, but also to play a responsible role in society, then we must use the power of the public sector to lead the way.

Last year, with the help of industry, we published a Supplier Code of Conduct to make clear the standards and behaviours that are expected of our suppliers when they work with government.

But I can announce today that we will now develop proposals for the government's biggest suppliers to publish data and provide action plans for how they plan to address key social issues and disparities.

Such as ethnic minority representation in their workforce, the gender pay gap throughout the company and what they are doing to tackle the scourge of modern slavery.

I have commissioned a review of these priority areas, and I will announce the outcomes later this year.

By requiring firms to publish this data, we will shine a light on some of the burning injustices that the Prime Minister has identified, and force suppliers to explain how they will address them – while bearing in mind as we implement this policy the need to prevent additional unnecessary burdens for businesses.

## **Protecting the market**

And as government, it is our responsibility to ensure also that our suppliers have the tools they need to protect themselves in a world of fast-changing threats.

Recent cyber incidents have shown that many suppliers are not taking the appropriate measures to protect themselves from possible attack.

We saw, for example, in the WannaCry attack that hit parts of the National Health Service in both England and Scotland last year, we saw the fact that the most low-level mistake, putting a disk into an old computer or a stick that had been contaminated could actually lead to a whole network becoming affected by harmful malware.

The government recently issued a new cyber security standard so that we and our suppliers better understand cyber security risks in government supply chains.

We will now apply this new cyber security standard to our strategic suppliers to assess if they meet the standard, and we will write this cyber security standard into new contracts and enforce full compliance with it.

We will also pilot the introduction of the cyber security equivalent of a 'credit check' on suppliers, allowing easy risk assessments of suppliers.

And we will accelerate expansion of the world-leading Active Cyber Defence programme, to better protect our critical national infrastructure, including such services as hospitals and our schools.

## **The role of industry**

Taken together, these measures will ensure that the market is strengthened, diversified, challenged and protected – and that values are placed at the heart of our public services.



By doing so, we will go some way to restoring trust between government, industry and the public – and build an outsourcing model that has the confidence of the people it is there to serve.

We we can't in government do this alone.

We need the industry to come with us on this journey too.

We need them to put right failings where they have occurred; demonstrate their ability to respond to changing circumstances; and show their capacity for innovation and creativity as well.

For if we are to deliver better and stronger public services with values at their core then, yes, we need to put in place the right conditions for those services to be delivered but at the same time, we need quality of service for the user to be the number one priority.

If we are to ensure that taxpayers receive good value for money then, yes, we need to make sure the conditions are there for suppliers to make a decent rate of return.

But we also need firms to invest in their workforces and retrain their people, so public services can be even more efficient.

And if we are to restore public confidence in outsourcing as something that benefits most people then, yes, we must ensure that government contracts fairly and wisely.

And also we need our suppliers to demonstrate themselves the highest standards, behaviours and values that society – our customers expect – of them.

## **Conclusion**

So by working together, government and industry in partnership, I am confident we can both rebuild that trust not just between ourselves, but between us and the public as well.

And in doing so, build a more 'responsible capitalism' that works for everyone, and is true to the changing society our children and grandchildren find themselves born into.

For the fall of Carillion reminds us that it is real people with jobs; livelihoods; families who suffer when things go wrong.

I hope that the issues that I have set out today mark the beginning of a process and a journey which, together, mean we continue to enjoy high quality public services, delivered by a diverse range of suppliers working in strong, competitive, vibrant markets but also with values at their heart.

Thank you very much.