

Defence Sub-Committee

Oral evidence: Treatment of Contracted Staff, HC 275

Wednesday 12 January 2022

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Members present: Mr Tobias Ellwood (Chair); Stuart Anderson; Sarah Atherton; Dave Doogan; Richard Drax; Mr Mark Francois; John Spellar; Derek Twigg.

Questions 142-207

Witnesses

I: Leo Docherty MP, Minister for Defence People and Veterans, Andrew Forzani, DG Commercial, Ministry of Defence, Alastair Johnstone, Deputy Chief Fire Officer, Ministry of Defence and Jeremy Quin MP, Minister for Defence Procurement.



Examination of witnesses

Witnesses: Leo Docherty, Andrew Forzani, Alastair Johnstone and Jeremy Quin.

Q142 **Chair:** Welcome to this Defence Sub-Committee hearing on the treatment of contracted staff for the MoD's ancillary services.

We are very grateful to have two Ministers today—thank you very much for your time—Leo Docherty and Jeremy Quin. We also have Andrew Forzani, who is Director General Commercial at the Ministry of Defence, and Alastair Johnstone, who is a Deputy Chief Fire Officer, for the Ministry of Defence as well. Welcome to both, and thank you, Ministers, for reappearing before the Sub-Committee. As we agreed, we will ask a couple of questions on other issues and then get into the meat of the subject.

Before I do so, I place on the record my thanks to Martin Docherty-Hughes, formerly of the Defence Committee but now moved on, for all his work. This was his Sub-Committee, which is why I am now in the Chair. We welcome David Doogan to the Defence Committee—thank you.

First, Minister, I will turn to Ajax, your favourite subject I know. Thank you for being so open—you have been very transparent and forward-leaning into what is going on in that difficult programme. Will you give us a quick update on where things sit?

Jeremy Quin: It has not moved on greatly since my statement just before we rose for recess. I confirm that we have now received the draft report—it is still in draft, but progress is being made at Millbrook on evaluation of the core vehicle. As you know, that is an incredibly important bit of work, because from that we will make certain that we know what needs to be done to fix vibration and, to some extent, noise issues. So progress is being made there.

As I said in my statement, there is ongoing work by GD, which is doing its own trials and tests to see whether it can find solutions to the issues—General Dynamics has fully acknowledged that there are issues to be resolved—and the people there believe that, from their perspective, they are making good progress on that. Clearly, that is something that we would wish to test and independently verify.

Q143 **Chair:** When do you see yourself coming back to the Chamber next to give us an update?

Jeremy Quin: When we know more about exactly where we are on both noise and vibration. I struggle to give you an exact date for that, Chair, but I have been timely in the past—I hope you agree—and I will be again.

There is another area in which we are making progress. We said that we would appoint a senior legal figure to conduct a further analysis. Good progress is being made on that. I hope to be able to say more shortly. I



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will certainly write to the Committee and let you know when we finalise that.

Q144 **Mr Francois:** Very quickly, Minister, 100,000 Russian troops including heavy armour are ringing Ukraine. What deterrent effect on the Russians do you think that the Ajax programme has had to date?

Jeremy Quin: I would hope that we are able to deter the Russians by the strength of NATO and of the capabilities that are fielded by the British Army in support of deterrence and of NATO—everything from nuclear deterrent and our troops positioned day in, day out, in Estonia, our work through Operation Biloxi in south-east Europe with—

Q145 **Mr Francois:** When they look at Ajax, they must be wetting themselves laughing, must they not?

Jeremy Quin: Well, I think they should be extremely concerned that we were able to bring this capability, which is an impressive capability, into the field. That is what we are focused on.

Chair: We have a few questions and then Mark wants to come back on another issue as well. I turn to Richard Drax.

Q146 **Richard Drax:** I was taking a call about a missing gentleman in Afghanistan, which is what I am dealing with.

On a recent visit—I mentioned this to the Minister at Defence questions—to the Special Boat Service, there were several issues that are burning. One was the lack of an aquatic centre. They have a pool, which they do not really use, because it is not fit for purpose. They are, as you well know, Marine special forces, and what they need is a pool of some size and some depth, where they can do as realistic training as possible in a safe environment, using all the kit they have and the various methods of insertion, so that they train for a real-life operation as much as they can. At the moment, they have the sea, but of course that is limited for all the reasons that you can understand.

I know you are aware of this and, from the Spad who contacted me, that the Secretary of State is aware of this, but the question is, what will be done and when will that centre be provided for our special forces whose speciality is water?

Jeremy Quin: I am very aware of the issue. It has not crossed my desk for a little while, but as you heard in the Chamber, it was something that I was aware of and I have had a discussion regarding provision of the pool for the SBS. My understanding is as Mr Drax says, that there is a pool there and it is not used as often as it should be, which may reflect the standards and capabilities of that particular asset. I did commit to go away and look at it. I will go away and look at it again.

The only thing that I would add is that we have been through the integrated review process, we have been through the Defence Command Paper and—this is always tough—Strategic Command always has to produce its priority items for where it needs to put expenditure. So, not



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everything that we want, we can get. I recognise why that is important for the forces to which Mr Drax refers. I will go back and I am in the process of doing so now. I have asked for advice as to where we stand and where that is in the order of priorities for Strategic Command. If the SBS does not get it, it is only because other items are more important for our special forces.

Q147 Richard Drax: I understand that, Minister. I know that you understand that we put our armed forces in harm's way—that is one of our jobs—and that therefore it is our duty to ensure that those we put in harm's way have all the facilities that they need to train to prepare for that. My only comment, which I will end by saying, is that if our own special forces cannot rely on even the most basic facility for Marine special forces—I know they do other things, too—I cannot think of a higher priority, other than accommodation, which I know you have also raised and is lamentable down there. I hope that you and others will fight very hard for money to come cascading down straight into the camp and pool.

Chair: I will invite the Minister to write to us, because we need to make progress. You have heard the plea loud and clear; I support that, as does the Committee. Maybe you could write to us with further details as to how you might be able to move forward.

Jeremy Quin: I will, Mr Chairman. I cannot commit to doing it, this prioritisation, but I will write to the Committee and say where we are and why.

Q148 Chair: Good. On the subject of special forces, we have been seeking a visit to Hereford to see the Special Air Service. I know, with all the mystery that surrounds the SAS, that Hereford does exist—I have been there myself. We would like to go back there. We have been making this request for a number of months now, and I would be grateful if your team and office could perhaps help to facilitate that visit in the near future.

Jeremy Quin: We will take it away and speak to our ministerial colleagues, Mr Chairman.

Chair: Thank you very much for that. Finally, Mark Francois has one issue to raise here today.

Q149 Mr Francois: Gentlemen, we have the Veterans Minister here. When will the long-awaited Northern Ireland legacy Bill finally come to Parliament?

Leo Docherty: I hope very soon. There has been some good progress, I think, with the drafting and the write-around process, and some robust discussion between the Ministry of Defence and the Northern Ireland Office, which leads on it. If it was easy, we would have done it more quickly, but I think good progress is being made, and I am confident that the Secretary of State for Northern Ireland will update the House, I hope, as soon as possible.

Q150 Mr Francois: I am glad you say that, because he briefed the press that it has now been delayed until the summer. He told us faithfully that we



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would have it by the last summer recess—that is, July 2021—then swore blind that it would be introduced into Parliament by the end of the autumn. He broke both those deadlines, and I understand that a point of order was raised by his opposite number a couple of hours ago, if that, about the fact that he did not tell Parliament that it has now been delayed. He did not issue a written statement; he did not give an oral statement; he treated the House and the Speaker with contempt, and briefed the press. You are the Veterans Minister. What is your comment on that?

Leo Docherty: We all share your frustration with how long this is taking, and we acknowledge that—as I said—if it was simple, it would have been done already. I know that the Northern Ireland Minister is working as hard as he can on this, and I am sure he will be aware of the frustrations raised today. I know he will be keen to—

Q151 **Mr Francois:** My last comment is this. It is not your fault—we know that. It is a NIO lead, and we understand that, but I would not trust Brandon Lewis if he told me on a Wednesday that it was a Wednesday. I just do not believe a word the man says. In what passes for a Government these days, we have had four years to honour this commitment. Why can't we even keep our word on stuff like this? Four years, two general election manifestos, a hand-signed pledge by the Prime Minister when he was running to be Prime Minister—where is the blooming Bill, please? Where is it?

Leo Docherty: I know that the Secretary of State for Northern Ireland, if he is not listening to this session, will be made aware of it.

Mr Francois: Well, he doesn't tell Parliament. He hasn't got the guts. We have to raise it with you when it is not your fault. We cannot raise it with him: he hides. He hides in the toilets, and he is supposed to be a member of the Cabinet. Perhaps you could tell him that this Committee is unimpressed; it is not just me.

Chair: Right, those points have been made loud and clear. We are now going to move to the substantive questions. I invite Derek to start us off, please.

Q152 **Derek Twigg:** Why do you outsource?

Jeremy Quin: We have done so for a long time, as you are very well aware, sir. This goes back to the 1990s. I think the original thought process then—and it still holds good today—is that there are areas of expertise that this Committee and the country expects of Defence: our core purpose, the defence of the country, the resilience of the realm, what our service personnel do so brilliantly day in, day out. There are other areas that are simply not specialist for Defence; that are not core to our purpose.

Q153 **Derek Twigg:** Could you give a couple of examples?

Jeremy Quin: For example, potentially, cleaning services for our barracks, or catering domestically for our barracks. We certainly need to



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have the capability when we are on operations, but not necessarily domestically. Those are just two examples.

Q154 **Derek Twigg:** Is it all service operations?

Jeremy Quin: No, there are other areas where historically we have outsourced. AWE, the nuclear weapons establishment, was put under a unique structure and put into the private sector. I have since brought it back under MoD direct control. There are a number of IT systems that have been outsourced.

The overall focus has been making certain that people who are experts in it, and have got expertise in those areas, run those areas on our behalf. We hold them to account, but the belief is—and I think there is evidence—that they are able to do that, adopting modern technology and more efficient processes, and are better able to do that than Defence.

Q155 **Derek Twigg:** Based on what you have just said, then, you can actually bring stuff back in house.

Jeremy Quin: Yes, we can. We have that capability; I am not certain how often we would wish to choose to do that. We are now, in many cases, on the third, fourth or fifth generation of contracts that have been outsourced, going through multiple re-procurements as they come up for renewal, and we look at them again and see whether the existing provider has done a good job, and competitively tender it. At every stage—Andrew will come in and add to this if he wishes—we look again at whether we should bring them in house.

I should say, in all fairness to the Committee, that for huge areas of our services, my expectation would be that, having been outsourced, they will remain outsourced. However, there are areas where we are not satisfied with the performance where we do bring them back in.

Q156 **Derek Twigg:** Which are?

Jeremy Quin: I can tell you two areas off the top of my head. I mentioned AWE; the other one, before my time, was that the management of the DIO was outsourced to Capita. We terminated that early and brought it back in house.

Q157 **Derek Twigg:** So currently, as we stand today, you have no areas of concern about outsourced services or contracts that you are currently considering bringing back in house?

Jeremy Quin: Today, looking over the whole of the principle of outsourcing, I do not have a problem with it.

Q158 **Derek Twigg:** That is not what I am asking. I am asking whether, as of today, you as a Department are considering bringing back in house any currently outsourced programmes or services.

Jeremy Quin: Bringing back into the MoD? No, not to my knowledge. Some guard services have been brought back in; that is something that has already happened, post-2018. It remains an option—every time



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something comes up for re-tendering, we will look again at it—but I would not want to pretend to the Committee that there is some programme of looking into bringing stuff back in house on an orchestrated basis. By and large, we believe that outsourcing in the areas that have been outsourced has been a good approach. My colleague here is trying to get in; I am not sure whether there is something you wish to add.

Andrew Forzani: I am Andrew Forzani. My role in the Department is that I am responsible for all of the commercial staff—I run the procurements—and also the commercial policies around this area. As the Minister says, it is on a case-by-case basis. The options appraisal that the Department goes through when it makes an investment decision, either a new service, a new contract or a replacement of an existing contract, will include the in-house option. The only live conversation that I am aware of is that in some of our IT provision, we are absolutely looking to bring some of those roles and skills back into the Department.

Q159 **Derek Twigg:** Can you be specific about which roles?

Andrew Forzani: Particularly some of the cyber areas.

Q160 **Derek Twigg:** Why is that?

Andrew Forzani: We call it service integration.

Q161 **Derek Twigg:** But why are you considering bringing them back in house?

Andrew Forzani: Because we have struggled to be enough of an intelligent customer, because we probably outsourced too much of that expertise in the past. It is a challenge to hold those suppliers to account, and I think we have realised that and are building that capability back into the Department. Some of that is just recruiting new civil servants, and some of that is bringing some of that expertise back from industry.

Jeremy Quin: Looking at the defence industry as a whole, this is an area where the country as a whole is really working hard to produce the personnel needed across the whole of the UK to provide these services. There are huge tranches of digital provision that we would not wish to bring in house—that we couldn't afford to bring in house, that it wouldn't be the right approach for us to do. We will get a better service by going elsewhere, but where we have expertise, it is particularly important. The largest area of in-house provision in digital is indeed in defensive cyber, where the bulk of it is provided by in-house provision from the MoD. It is areas like that—where we can see that we can ramp up our internal expertise so we can make certain that we are able to challenge our suppliers—that we would like to expand.

Q162 **Derek Twigg:** What is the size of the contract we are talking about? What is the cost of bringing that in house? There is concern—we will go into this in the next part of the Committee—that the battle is between value for money, in terms of saving money, and getting the good-quality service that we require. What are we talking about for this?



Andrew Forzani: On the IT side, these are relatively small numbers. This is not wholesale bringing services back in; this is particular skills and capabilities that are really scarce, as the Minister said. It is about having those back in the Department to better manage industry.

Jeremy Quin: Another example—this is more consultancy, rather than outsourcing—is that we are trying to build out the skillset we have in DIO to do more work internally, rather than having to go out to consultants. We would like to have more expertise in that area as well.

Q163 **John Spellar:** You talked about going to companies that have specialist skills, but is not one of the problems that we have a limited number of companies that are getting most of these contracts, and they do not have specialist skills? They are generalist companies. They are not actually bringing anything in particular to the table. I understand that, if you have a haulage issue, you go to one of the big haulage companies or logistics companies. I understand how that works, but many of these companies do not have that expertise. They come in and believe that they bring some great skill of management into it, but that claim does not seem to be evidence-based.

May I propose a separate and different question? You talked about catering as one service that is easy to contract out, but is not one of the problems that we must always face whether we also lose resilience in the process? In other words, we have occupations and activities in the UK for which we need people who have those skills also to be deployable. Therefore, if we replace all our troops—even though the troops may be less cost-effective on a narrow basis—the fact is, we cannot deploy those civilian staff overseas, especially not those who work for contractors. Are we getting that balance right?

Jeremy Quin: DPV might want to come in on catering. We maintain military personnel who would provide that catering in the field and on operations. Clearly, Mr Spellar is absolutely right, that is a priority.

Q164 **John Spellar:** They have to be able to work here, because we will not have them deployed the whole time—that would completely disrupt their lives.

Jeremy Quin: We need to get the balance right and we need to ensure that we have sufficient. The DPV Minister may want to come in, but before he does, on the expertise, I wish there were volumes of companies providing service facilities to the MoD. Mr Spellar is absolutely right: there is a limited number of large companies that do that. We try to ensure that they are there, that they provide expertise and that they provide—Mr Spellar said it—management understanding, new investment and new focus. We also try to ensure that we can get competitive markets, by looking at regional solutions and by pushing them to use SMEs through their supply chains. We try to build up a larger number of companies and, in my experience, we have competitive tenders for these processes. It is not a completely dry well. On catering, DPV might well want to talk about where we are on ensuring that we have that capability.



Leo Docherty: Thanks, Jeremy. You are right to suggest that it is a blended approach whereby it is necessary and useful to have a core of operationally deployable chefs to fulfil the military requirement, but using those sorts of people to fulfil our domestic catering obligations right across the Defence estate from Aldershot to every corner of the country would be unnecessary. That is why we have a blended model. By and large, in my experience, subcontracting catering across the Defence establishment has been very positive. The blended approach has demonstrated success.

Q165 **Dave Doogan:** Before we move on, Mr Quin, although you have not been in post for the whole time, in the 13 years of outsourcing and privatisation of functions that were formerly a feature of the Ministry, are you content that now, institutionally in the MoD, there is sufficient understanding and weighting of the difference between value and price?

Jeremy Quin: May I ask how you would define that? I hope what you mean, Mr Doogan, is, do we really ensure that we are getting an overall package, not just going to the lowest common denominator on price?

Dave Doogan: Indeed.

Jeremy Quin: I would on that. I have seen circumstances where we have rejected lower-priced bids because we do not believe that they will meet the key user requirements that we require. We are absolutely hard over on ensuring that people, having bid on a certain specification, deliver on that specification.

The third thing I will say is that under the PCR regulations, the 10% minimum social value is now applied, so it is absolutely baked into the contract. I welcome this, and I know the Committee does. Even if I thought we had lost the capability of seeing the wider context, we just can't. It is part of that tender, and the companies tendering need to know how they are going to address our 10% on social value and how they are going to add value to the communities beyond just price. I really hope we have got that covered.

Q166 **Dave Doogan:** Good. Consistent with that ambition then, in terms of the finances, are you sticking with fixed, on-station resources that are civilian roles, not deployable resources like catering? They were civil servants but are now being outsourced to a private sector operator. That produces invariably a saving for the Department—it is certainly meant to. It is a zero-sum game. Where does the burden of that saving fall? Does it fall on the contractor, who is making a profit? It should be making a profit; there is nothing wrong with that. Does it fall on the people and their terms and conditions? Who picks up the price for the better value?

Jeremy Quin: It has been a long chronology on this. I can probably guess where Mr Spellar and Mr Doogan were heading. When they started back in the '90s with the first generation, there were significant savings made by outsourcing. The discussion was around 20% as the MoD shifted to new providers. As I said, we are now three, four or five generations in in terms of changes. The tension comes from the tender process, in which companies have to work out for themselves how they can provide the

value of the proposition alongside the cheapest price possible. We get a sense through that competition process as to where we can drive the pricing levels to, consistent with the performance, so it very much does come through that tender mechanism. We then follow up with them and ensure that they meet the KURs.

Q167 **Dave Doogan:** I will move on. Clearly, the Ministry's footprint is right across these islands. You necessarily then have establishments that are in devolved nations and located within large urban council and large English county council areas. How do you ensure that your subcontractors deal appropriately with these other authorities?

Jeremy Quin: There is a point I should have made on your last excellent question, which should not be left unsaid: there are occasions when a new contractor can make investment and therefore deliver the services more efficiently. We may get on to this later on a particular subject. They take the workforce on with TUPE, and these days, I am glad to say, with the new civil service deal the pensions come with that as well. It is simply a matter of how they can make those tasks more efficient. I am thinking of warehouse distribution and other roles where they have achieved that. But that was really in answer to your previous question.

In terms of interaction, we would always expect them to act appropriately with local government and the DAs. The nature of that involvement will vary according to the nature of the task. I suspect we may well get on to Defence Fire and Rescue later on, and I would expect it to have a very strong interaction with the local fire provision. In other areas there may be a much lesser interaction. If it is catering, I sincerely hope they are not in regular contact with environmental health. It does depend on where we are.

Q168 **Dave Doogan:** Dealing with civilian authorities—say, for example, Police Scotland—you and I both know that there is regular dialogue where there needs to be between the MoD, armed forces and Police Scotland. Is that left to luck, chance or the professionalism of the mutual organisations, or is it written in somewhere?

Jeremy Quin: I know what happens in practice, and Mr Doogan probably does as well. For example, at Faslane there are very regular meetings in which the base commander brings together all the service providers—be it Police Scotland, Scottish Fire and Rescue or others—in a regular series of interactions. I would absolutely expect of our outsourced providers, who are expected to be part of them, that it is inherent in their contracts that they are leading into that and being part of those processes.

Q169 **Dave Doogan:** There is a big difference between an expectation and an explicit requirement, though.

Q170 **Jeremy Quin:** My expectation is that there is an explicit requirement.

Dave Doogan: That's handy!



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Jeremy Quin: I cannot promise that—I have not read the contracts—unless Andrew can confirm that, but I would absolutely think that they would be expected to do that as part of the contract.

Andrew Forzani: I would think that it depends on what the service is. There will be some services delivered by the private sector where the Department actually has not outsourced some of that regulatory authority. They still might be the client, and they would still maintain those relationships with devolved Administrations. There will be other types of services where it has been completely outsourced, and then we would expect the contractor to take the lead in those relationships. If they have taken on some kind of statutory duty, that would be reflected in the contract.

Q171 **Dave Doogan:** Despite your clever last answer, I am still concerned with the use of the word “expect”, rather than “require”.

Jeremy Quin: If there are specific areas you would like us to check, we will come back to you. My difficulty is that there are so many different areas where we have outsourced, so which particular areas? We could be more granular, if that is helpful. If there is a list of what you would expect in these areas, we would happily be able to look into that for you.

Q172 **Dave Doogan:** I think we will move on, Chair, but if you want to reply to the Committee with further information, it is in the areas of local authorities, whether fire and rescue, police or councils. It is those types of things: not like environmental health, but significant issues of public safety.

Jeremy Quin: This would clearly be in relation to fire, obviously.

Alastair Johnstone: Yes, in relation to the defence fire and rescue project, it is explicit in the contract. It is in the operations management plan, which is schedule 14, annex N.

Chair: Thank you, David. Sarah, did you want to comment on this one?

Q173 **Sarah Atherton:** Yes, just to chip in on the back of David’s question. For example, in Faslane, are there joint exercises between defence fire and Helensburgh fire brigade?

Alastair Johnstone: Yes, there are joint exercises between Scottish fire and rescue and Capita fire and rescue, the on-site fire and rescue service, which also incorporates the wider management tier within Faslane and the emergency response for that site.

Jeremy Quin: And the Royal Navy firefighters themselves, who obviously have a key part to play.

Sarah Atherton: Of course. Thank you.

Q174 **Chair:** Minister, we spend a lot of time talking about money and value for money, and then how you can best spend it. You will be aware that the National Audit Office and the Public Accounts Committee have concerns



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about some of the contracts and getting best value. Can you say what enforcement mechanisms you have—what checks and balances are in place—to make sure that when you provide these contracts, they are meeting the standards that you expect?

Jeremy Quin: I can, but Andrew might do that more professionally. Do you want to run through that?

Andrew Forzani: I am happy to start, Minister. It is fairly common in all of our contracts for the outcomes of the services to be against key performance indicators—particular outcomes of services and milestones—so there will be some clear schedules of what is the output of the service that is in the contract and what we are paying for. There will be mechanisms in there, so regular reporting against those standards; then if standards, outputs or milestones are not met, our first course of action is usually to withhold payment until services are delivered correctly. I have quite a lot of examples of where we are doing that at the moment.

If services are not rectified, or it cannot be rectified, then those are payments that we would withhold and the contractor does not get them. Some of these ancillary services that we are talking about are very low-margin industries, as you are probably aware: if we start to talk about soft facilities management, it is pretty common for them to bid on only about 3.5% as their profit margin when we see the initial bids, so if you are then withholding payment against performance, it does actually bite. If that still does not resolve issues, we have liquidated damages that can add up, and contracts will have mechanisms whereby you can take so much off a contractor up to a certain level. Often, that is capped at the profit level that they are due to make on a contract.

If all of that still fails after a period of time, then of course, we are into “Are we looking at putting the contractor into default or into termination?” The Department has terminated contracts in the last few years for poor performance.

Q175 **Chair:** Or because the company has gone bust. You could reply to that, but I see you just looking at me, so—

Jeremy Quin: I am not certain technically whether we would be putting them into default or whether they would be putting themselves into default, but you are quite right: there has been one example of that that I am aware of.

Q176 **Chair:** Let’s go to a specific one that I discovered when I was sitting in Leo’s shoes. The very first question you were asked was, “Why do you outsource?” Of course, the alternative is to do the work in house. A huge amount of expenditure was poured into an in-house IT system, for HR purposes, for armed forces personnel, and the reason why the in-house model was chosen was that it was cheaper than going to Siemens, Serco or another big company that would have charged more but would have, I presume, delivered on time and so forth. Evidently, it was beyond the scope of the code writers and digital capability of the MoD, so we spent the money internally, and it was millions of pounds. We then had to cut



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the programme and outsource at the same time. When I asked, “Why didn’t you just outsource straightaway?”, they said, “We didn’t have the budget.” There wasn’t a wise owl, sitting above this, to say, “This is going to cost us a lot more money in the longer term. Let’s make the case to spend the money now.”

Jeremy Quin: Mr Chairman, if the point you are making is—I think it is—that in those circumstances where we decide to prime things ourselves, we have to make damn certain we have the expertise to be able to deliver it, I would agree with you in spades. I have seen other examples where it seems the cheap option to say, “We’ll bring it in house; we’ll do it ourselves.” Actually, it is not just the cheap option; there are, in many cases, really good reasons why you want to prime it, own the IP and control it—there are good reasons. But you have to make certain you have the in-house expertise, and I am not convinced that we always have when we embark on that journey.

Chair: To give a detail to show that this was not considered, it was given the Greek mythological name of a character that eventually ended up very dead anyway, so it was not well thought through on all sorts of levels.

Q177 **Mr Francois:** On the procurement point, this Committee has been highly critical of waste in procurement. The Public Accounts Committee described the MoD’s procurement process as—their word—“broken”. The Infrastructure and Projects Authority went through your 36 top programmes. Not a single one of them was rated green—that is, on track on time and cost. All we seem to get is that you are in denial that you even have a problem. Do you accept, once and for all, that your procurement process, as the PAC argues, is broken?

Jeremy Quin: We respect what the PAC says. We will go back to them formally, as you would expect us to do. Mr Francois is absolutely right in terms of the number of green projects: there are green/amber projects, but there were no green projects at that time. The number of red projects we had was not dissimilar, in terms of proportion, to the rest of Government, and we are asking people to do extremely complex projects when they come up with equipment for the MoD. Are there things we can do to improve? Certainly. Are there specific areas that we are focused on improving? Yes, there are. We will go back to the PAC. Overall, to describe it as broken I think is unfair and—

Q178 **Mr Francois:** There have been 13 formal reviews of defence procurement since “Learning from Experience” after the Nimrod debacle in 1986—that’s the first Nimrod debacle, not the second Nimrod debacle. There have been 13 formal reviews, yet the PAC says your procurement process is broken. All you ever do is make the same waffling excuses, and the programmes still run horribly late and over cost. When are you actually going to do something muscular to change it?

Jeremy Quin: Not all—

Mr Francois: Thirteen reviews!



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Jeremy Quin: Not all projects, as I am sure Mr Francois appreciates, run over cost or over time. Indeed, 80% of projects are within the cost envelope set in the main business case. As the PAC identified, there is a big difference between a rough order of magnitude when someone first thinks, "Let's build an aircraft carrier"—that's a bad example, but a happier one under the last Government—and then someone actually taking through the main business case to prove it and saying, "This is what the costs are going to be." In recent experience, those costs estimated in the main business case have been far more proximate to the actual result.

Q179 **Mr Francois:** You're not even listening to me—you're not even listening.

Jeremy Quin: No—

Mr Francois: You're not. So let's find a specific example. Capita. DIO—a basket case, known as "DI no" throughout defence because they're so useless. You brought Capita on as a strategic business partner, and then you sacked them. Why did you sack them and how much did it cost?

Chair: This is Sarah's question.

Q180 **Mr Francois:** Okay, I'm sorry, but in that case—recruitment. That was a disaster. There was a 10-year recruitment contract with Capita. You missed the recruitment targets seven years out of 10 during that 10-year contract. You broke the back of the British Army while you were doing it.

Chair: This is Sarah's question, so can I ask you to answer Mark's important point and then we will hand over to Sarah? Is that alright with you, Mark?

Q181 **Mr Francois:** My apologies to Sarah, Chair. Now you have just given them a massive fire and rescue contract. Why do you keep employing the people who cock up again and again?

Chair: Mark, this is exactly Sarah's question.

Q182 **Mr Francois:** All right, my apologies. But you can answer me; I am here. Why?

Leo Docherty: Do you want me to take recruitment to start with?

Jeremy Quin: Yes, and then I will take the DIO, and then we will take Sarah's question.

Leo Docherty: I think we accept a lot of what you say, Mark. When it comes to recruitment, however, it is important to reflect that there was a hefty fine imposed on Capita. Andrew can give more technical detail on that.

After a number of painful years, we are now in a very good place. There are various reasons and ways in which we might attribute the blame. It is deeply regrettable, but we have to keep in focus the fact that Capita were fined. By working together, through collaboration between the armed forces and General Urch, who really got a grip of this—



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Q183 **Mr Francois:** Are you saying that Tyrone fixed it?

Leo Docherty: Yeah, he fixed it. That was a good collaboration, and we are now in a good place. Andrew may want to give technical detail as to—

Q184 **Mr Francois:** I will just have one more quick go, and then I will defer to Sarah. You sacked Capita from the DIO contract, because they were plainly useless. I would still be interested if you could tell me, Sarah or anyone how much money you wasted when you sacked them. You then heavily fined them on the recruitment project. So, they get fired once and fined twice, and then you give them a massive plummy contract on Defence Fire and Rescue. To two people having a drink in a pub, that is mad, isn't it?

Andrew Forzani: I do not know whether the Committee is aware that under the public procurement regulations that we have to follow when we are spending the money, because of the equal treatment of all suppliers across the EU, it is incredibly difficult to disqualify a supplier for poor past performance.

Mr Francois: But we are no longer in the EU.

Andrew Forzani: But these contracts were all laid out under the old regime, and the current regime is still the same. It is going to be changed during this Parliament, I believe—

Mr Francois: Yeah right. We can do that after we have done the legacy Bill.

Andrew Forzani: When you evaluate a supplier's proposal, you cannot actually score them down for poor performance on another contract. That is just the way the regulations are written.

Q185 **Chair:** So, each contract is taken separately, on its own merit, and you don't look over your shoulder to look at what has happened before.

Jeremy Quin: Chairman, that is currently the case, but Andrew is absolutely right that this is an area that we are looking to address.

Q186 **Chair:** Are you going to advance this? It doesn't make sense.

Jeremy Quin: This is something we are looking at very closely, from the point of view of how we amend those regulations.

Q187 **Mr Francois:** If I sold you a car that didn't work, and then I sold you another car and that didn't work, would you come back and buy a third car from me?

Jeremy Quin: The only thing that I would say is that Mr Francois is drawing two very different circumstances. DIO was a disaster. As a result, we decided—I say we; it was probably around your time, Mr Francois—

Mr Francois: No, no, no, no. You are not going to play that game.



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Jeremy Quin: I don't know who it was, but a wise decision was taken to try something different and to bring in a private contractor, to see if they could manage the DIO.

Mr Francois: Jeremy, I did one in the first place. They were sacked long after I went. Don't play that game with me.

Jeremy Quin: I am not playing any games.

Chair: Please, this is Sarah's terrain. We have the agreement, which Mark has teased out, that an upgrade in the legislation is required. It does not make sense and it needs to be reviewed.

Q188 **Sarah Atherton:** That is really sensible and good to hear. May I retreat slightly to the outsourcing of the contract of the Defence Fire and Rescue Service? Serco launched a legal battle against the MoD in 2018 over that contract process and, if I am correct, won a £10 million settlement. Then, Serco won the 12-year contract to supply the Defence Fire and Rescue Service, at a price tag of £525 million.

Since August 2019, Capita's empire has been building and it now serves 54 bases in the UK and abroad. Mark has eloquently detailed my first question, which is very relevant, but how do you assess Capita's progress to date?

Jeremy Quin: On this particular contract or the fire services?

Sarah Atherton: The fire services.

Jeremy Quin: We should bear in mind that Capita have been running the national fire college since 2013, and it is the centre of excellence for much of the UK—other colleges are available. They have a degree of expertise. They have been putting in place their risk-based plans with establishments throughout the 54 sites to which Sarah refers. I don't know whether either the deputy chief fire officer or Mr Forzani would like to make any comments about how we feel that they are bedding in.

Alastair Johnstone: Certainly. We are moving through at the moment. We have gone through the mobilisation and migration phase, and we're coming towards the end of transformation, so there has been an awful lot of activity ongoing at this point in time. Capita have met their key milestones as they've moved through. We have quite a robust performance monitoring system in place where we monitor Capita on a monthly basis against the key performance indicators. There are six KPIs and 34 performance indicators. They are regularly checked on against those to ensure that they are meeting the service that we asked for.

Q189 **Sarah Atherton:** So you are happy? There are no warning indicators.

Alastair Johnstone: At this point in time, yes, we are content.

Q190 **Sarah Atherton:** Can you confirm whether Capita are now running an integrated risk management and planning process, which is expected to reduce the number of employees? How does this share gain policy



influence that?

Alastair Johnstone: The integrated risk management policy that they're running—I can set the process out for you as we move through it—is based on defence needs. Defence Fire and Rescue acts as the intelligent customer with heads of establishment to set the defence critical infrastructure that is required to be protected. Then we develop what is called credible worst cases. These are scenarios that are credible but would also tax the fire resources. Capita then provide the solution to that, looking at the prevention element, the protection element and the response element. When that comes back into MoD, Defence Fire and Rescue evaluates that to see if it is appropriate or not, and we then go to the head of establishment, who is the risk owner, for sign-off. This is based on criticality, and cost does not come into it at this point in time. Indeed, we have had some IRMPs that have increased manpower levels, rather than reduce them.

Q191 **Sarah Atherton:** So you do not anticipate any redundancies on the back of that?

Alastair Johnstone: I am not saying that I do not anticipate any redundancies. I am not aware of any at this moment in time. I know that there are some movements up and down with regards to manning levels across the service.

Jeremy Quin: It is fair to say, is it not, that they bring in 128 vehicles? New vehicles and new PPE are being delivered. That might deliver some efficiencies in a better service, and what I am told is that personnel can be safer inside the cab, so there is a legitimate reason why that might mean that you need fewer people, but this is done site by site. In some cases, sites have increased their personnel.

Alastair Johnstone: Yes, you're quite right there. As new technology has come in—this is not tied to defence either—it is common practice in the fire and rescue industry across airfields that where larger vehicles come in that have remote monitors and controls from inside, you no longer need that firefighter on the roof. That allows you to release manpower.

Q192 **Sarah Atherton:** How does this share gain policy influence any decision making? How can that be good for value for money and quality of service, which David touched on at the beginning?

Jeremy Quin: I am going to make a very bold statement. As for the plan that will be put in place, it is part of the contract to make certain that we have a good worst-case-scenario-based plan for every site. I have spoken to a base commander on this, and if you're running one of our bases, one of your prime preoccupations is safety. In practical terms, as for the idea that Defence will be going out of their way to try and save a small amount of money at the cost of safety by getting some gain share—I think it is 47.5%—my genuine gut instinct, having spoken to a base commander, is that I really don't think that that is something that we need to be worried about. I really don't think any base commander is going to prioritise saving a bit of cash for Main Building against the safety of their personnel.



Sarah Atherton: Thanks Minister.

Q193 **Stuart Anderson:** My first question goes to Minister Quin. You spoke about multigenerational contracts being outsourced for many years. Not specifically on them—from what I can gather, you are not looking to bring them back in house—but when you look at other services or requirements that you have and when you decide to outsource them, what discussions do you have with the trade unions?

Jeremy Quin: Just to be clear, it is not inconceivable that other things could be outsourced. There may be options on the training side, for example, but a lot of the heavy lifting on that has been done. The most recent first generation is the fire services, but that was started in the 2010 IR and went through from there. The main business case was in 2013, and it was finally let in 2019.

I cannot pretend that live discussions are ongoing about more outsourcing with which we will be involving the trade unions. I am not aware of how we will be discussing with trade unions in those circumstances, because it is a theoretical discussion. I followed the written evidence provided to this Committee, and I understand that Capita are now working out their risk plans and are being far more engaging with the trade unions over the development of those plans. I don't know whether Andrew has anything more to say on our interaction with the unions.

Andrew Forzani: I talked earlier about the kind of options that we have when we put in new investment decisions. Where we are looking to make a significant change to a service, our policies are clear that we have to engage with the unions.

Q194 **Stuart Anderson:** Thank you. Minister Docherty, I want to look at personnel. We have been told by the unions that some personnel on outsourced contracts feel like second-class citizens. What does the MoD do to ensure that contracted staff are treated fairly?

Leo Docherty: Primarily, it is a function of the chain of command to ensure that they are included as part of the defence family. Aside from the contractual obligations, which Andrew may want to touch on, I know from first-hand experience of dining in many cookhouses up and down the country that when you meet ancillary staff in these sorts of situations, they are very much part of the family of the base. A large proportion of them tend to be ex-regulars or veterans themselves and so have a great affinity with the defence family.

As Minister Quin referred to, it is absolutely not in the interests of the base commander or the chain of command to treat these magnificent people any differently, because they are part of the core team delivering really important outcomes, such as good food on the base. There is nothing more important for morale than dining properly. Having used cookhouses staffed by Hestia, I would say that morale is pretty good and the outcomes are pretty good, and they are really appreciated by the service personnel using those facilities.



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Q195 **Stuart Anderson:** We had a recent visit to Harrogate—

Leo Docherty: Fantastic.

Stuart Anderson: It was fantastic—

Leo Docherty: I have dined there recently.

Stuart Anderson: The RSM, who was of a similar generation to ourselves, pointed out the change in the food quality, and it was exceptional to see that.

Leo Docherty: If I could just briefly remark on that, you are absolutely right that, since our generation was enlisted and commissioned some 20 years ago, there has been a sea change in quality and flexibility. The pay-as-you-dine provision has had to raise its game, because it is much more of a free market in terms of the custom of people on base, who have more options. If it is a choice between going to Subway in Aldershot town centre or going to the Omer barracks diner, they keep going to the diner because it is extremely good value and fresh and healthy.

Q196 **Stuart Anderson:** Many veterans and those in contracted services will feel part of the camaraderie and feel included at most bases. Would the unions then be referring to contractual arrangements? I know Minister Quin mentioned civil service pensions. What are you doing within the MoD to ensure that contracted service personnel have the same opportunities or similar in relation to regulars?

Leo Docherty: I will hand over to Andrew in a minute, but I think it is very important to understand that clearly, we are dealing with a huge swathe of very varied types of contract across very many different sites. However, within that, there is always a formal provision for regular and thorough engagement with unions and a good feedback loop, which is extremely important. I do not know if Andrew wants to expand on that.

Andrew Forzani: If it is a first-generation outsource—as the Minister said earlier, fire and rescue is probably the last big example—living through that procurement, there was a huge focus from our side and time, effort and expertise brought in to focus on TUPE protection; to make sure that those staff who transferred over to Capita, as it transpired, would do so with no detriment to their terms and conditions. Collecting all of that information, being very clear about what the terms and conditions were, and getting assurances that they would not be changed was a big part of the exercise. That was a real focus of the Department, to make sure that those workers were protected.

If it is a contract that has already been outsourced and is moving from one provider to another, again, we do play a role. A big part we play is that we collect the terms and conditions information as part of the bidding process. We ask the companies about people policies—things like training and development, and some of their people metrics—so that does form part of the information we get in bids and how we evaluate. Again, we will make



sure that they are held to account; that, as part of a transfer, there is not a degradation of terms.

Jeremy Quin: There are also opportunities that may emerge. We should not always assume that you are somehow going into a worse organisation by leaving the MoD, strange as that may seem with me saying it. You may well be going into an organisation where you have more opportunities to develop your career, train and advance your way through an organisation. Working for a company that is specialist in the area in which you have focused your career is not all downside, necessarily. There may well be opportunities that flow from it.

Stuart Anderson: Thank you.

Chair: Stuart, thank you. John, do you want to come in, and then David?

Q197 **John Spellar:** I think that that is right in a number of areas. However, when you are transferring the workforce and the operation, to what extent do you try to ensure that there is also an industrial relations component—in other words, if the unions and their members are being used to take up not just those annual pay negotiations but grievances too? Are you ensuring that that moves across as well, and do they not only have the ability to maintain that but, if there are problems with the contract, is the union as an organisation able to raise that with you as the client? Although you are no longer the employer, you are still very much the client.

Jeremy Quin: You have just taken the words out of my mouth in terms of us not being the employer; by definition, the nature of the relationship changes. When there are problems with service provision, we get to hear about it in the MoD through a number of ways. If you are a base commander, the last thing you want is to have dissatisfied service personnel, and that affects morale. Therefore, when we hear about problems, I think we are able to act on them.

Andrew, you referred earlier to our requirement to consult with unions when a major change is taking place. I assume that, certainly in the first generation, that is where those interests would particularly come up.

Andrew Forzani: Yes, we would certainly encourage those conversations to start. I just wonder whether Alastair might give an example—because fire and rescue is a heavily unionised service—of how that journey has worked from that perspective.

Alastair Johnstone: Again, I come back to the contract. Within the contract, Capita set out its proposal for engagement with the trade unions and the frequency, etc. that is there. I was engaged as part of the process during the TUPE negotiations as the MoD advisor—the SME advisor—within that, and the negotiation itself between the trade union and Capita in that period was quite fruitful.

Q198 **John Spellar:** Could I just go back briefly to the question of companies being excluded from future consideration? I find it truly extraordinary



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that if, for example, a company was taken to court for a serious health and safety breach, possibly resulting in death or serious injury, and convicted, or found guilty of fraud against the organisation, we would not be able to say to them, "You are not going to be considered for future tenders to the Ministry of Defence".

You said that was down to European regulation. I would be very grateful if you could forward to the Committee the actual regulation concerned and also outline the route by which that has then been translated into Cabinet Office or Treasury, because very often we find that what is said about European regulation, how it is applied in other countries and its interpretation does not actually bear the weight that is sometimes put on it by your colleagues over in the Treasury and the Cabinet Office.

Jeremy Quin: Mr Forzani set out absolutely accurately the current regulations as they apply and the inheritance that we have. A Green Paper was issued by the Cabinet Office about future procurement reform, which I hope has been of interest to the Committee. It is an area of active discussion across Government. You know that individual Ministers do not declare policy; that is not our job. But we do work together where we see areas of interest. This is definitely an area of interest to the Ministry of Defence; I can assure the Committee of that.

Q199 **John Spellar:** I would ask, therefore, that we have the actual directives that seem to be the basis of this policy, so that we can actually—

Jeremy Quin: I am sure we can point you in the right direction.

Andrew Forzani: Can I just add something? You were actually correct, though. There are some exceptional circumstances where you can bar a company bidding for public sector works. One of those criteria is around fraud by a director and serious legal breaches. The point that I was making is that you cannot bar them on poor past performance, but there are some legal elements—as you have said—that would allow you to do that.

John Spellar: If you can send us the details, that would be helpful. Thank you.

Chair: Thank you, John. David.

Q200 **Dave Doogan:** The MoD is a dynamic organisation; it waxes and wanes with platforms, policies and strategies. It is safe to say that there used to be a lot more MoD around these islands than there is now. You can argue about whether that is just or unjust forever.

Military bases used to be at the heart of communities—many more communities than is the case just now. Given that they are still in some communities—many communities in the south-west of England—does outsourcing damage the link between these establishments and the local community? I ask that because if you turn the clock back 30 years, which is around about the time that I started work in the MoD, and you got a job in a MoD establishment, you had properly landed on your feet as a civilian, as I was. That was a great place to work; that was a great employer.



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If my kid came home and told me that they had just got a job with Serco, I would not be reaching for the champagne, but if they got a job with the MoD, that would be a very different prospect. So, what have we done to protect the value that was there from being an MoD employee, whereas now that same opportunity, if the base is still there, will be fulfilled, for a lot of people, by becoming an employee of—I say “Serco”, but “A N Other Private Sector Company”?

Jeremy Quin: I know that Leo is itching to come in, but before he does—you would expect me to say it, Mr Doogan, but you mentioned the bases in the south-west of England. We are very proud of our bases north of the border: Leuchars, with an extra unit going in; Lossie, where we have got the—

Q201 **Dave Doogan:** I was not going to mention Leuchars, Mr Quin, but you have, so let me just reassure you and let me not be too parochial about it either. The MoD closed down Kinloss as an RAF main operating base and you put the Army in; the MoD closed down Leuchars and you put the Army in; and you closed down St Athan in Wales and you put the Army in. It is not the same thing at all to have a really large-scale RAF main operating base, and then to take all of that away and put the Army in. It is no disrespect to the Army, but it is an entirely different proposition. So it is not like for like. But anyway, that is a bit tangential to—

Jeremy Quin: We put the E7 into Lossie, for example, as a way of—

Q202 **Dave Doogan:** Well, I never mentioned Lossiemouth; that is a different thing. But if nothing else, Chair, I would like the MoD to go away with the message that putting the Army into a closed-down RAF base is not the same thing at all, and I reiterate and emphasise that that is no disrespect to the Army.

The point is about the value and prospect and terms and conditions of having a job that would have been as an MoD employee and now is not.

Jeremy Quin: That is the main question, and we won't get—it was my fault—sidetracked. In the cases you talk about, long before my time, where the RAF was consolidating on to a smaller number of bases, which has happened, right the way across the UK, I hope that having the Army there—

Dave Doogan: Softens the blow.

Jeremy Quin: It may not be the same as having the RAF, but it does, I hope, give ongoing commitment to a local community. That was the pith of your first question, which I denied DPV the chance to answer. Would you like an opportunity to respond?

Leo Docherty: Thank you very much. I was going to say, in terms of community benefit—you mentioned a hypothetical example with Serco. I think it's important to recognise that there is provision for significant positive impact on local SMEs. Andrew may want to provide more detail, but my understanding is that there is a 25% expectation or requirement to



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have a positive impact on SMEs, which is very, very significant for local employment.

Q203 Dave Doogan: With respect, that is not additionality. MoD establishments are big organisations. They need the private sector—the local builder, the local landscape gardener. These were brought in anyway by the MoD; they are just brought in now by a private sector company that has responsibility for the facilities.

Leo Docherty: But the notion that this is all being denuded because one huge corporate entity is swallowing all this up is not the case. I just want to point out that there is significant employment benefit.

Q204 Dave Doogan: It is not about the local contractors; it is about the local employees who go there day in, day out.

Leo Docherty: Yeah—sure.

Jeremy Quin: You personally would view someone working for the MoD as being on a really good thing and someone working for one of our private contractors as being on a less good thing. That is the pith of your question.

Q205 Dave Doogan: That is exactly the point I am driving at.

Jeremy Quin: I just wonder whether that is being wholly fair, because there are good companies delivering good services to the MoD where individuals will be able to advance their careers more broadly. I understand the point. We really value those individuals who work for us. I appreciate that it is a different entity that they are working for, but those entities do provide opportunities; they do provide training; and they do, hopefully, provide progression and the ability for people to really prosper.

Q206 Dave Doogan: I would counter, Minister, your assessment of my lack of fairness with perhaps your lack of fairness in hindsight of what it was to become an MoD employee. You could start by pushing a brush in the MoD and work your way up over a 25, 30 or 40-year career. You could end up in Main Building as a grade 5 or 6 civil servant. That was not unheard of. And you would be supported through that journey, through your education—as I was—by the MoD. I accept Capita is—I keep mentioning Capita. Private sector organisations are large; they have career progression. But I am just wondering about the people who do not progress and the difference in their employment prospects and their welfare from not being a civil servant in the MoD.

Jeremy Quin: I hope that the people you are talking about would have similarly good opportunities to advance their careers and prosper; and if they wish to transfer into the MoD, that is something which I would hope we are always open to. Andrew, you were trying to get in on that point.

Andrew Forzani: It is a slightly related point. I was just going to add, on the current Hestia contracts, the soft facilities management contracts, that for the first time we put in contractual provisions about how they would work with their local communities, so there are some provisions and



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requirements in there around how they are working with things like local kickstart programmes and how they are trying to halve disability gaps, and they have some targets around reaching into the community, making a difference and working with local charities. That is assessed as part of the performance, and that is the first time I am aware of that we have done that on these contracts.

You will be aware that we are now mandated to include social value in the evaluations. We were talking earlier about not just evaluating on price and driving down the price. Social value, which could be around employability, community etc., is now going to be a significant part of the evaluation. Again, it just shows the focus is much broader than price, I would say, in public sector procurement, going forward.

Dave Doogan: Thanks, Chair.

Q207 **Chair:** David, thank you very much indeed. This is a final opportunity for our guests this evening, the panel, to offer anything else. Is there anything further you would like to add?

Jeremy Quin: I would just like to thank the Committee for its interest in this area. This is not an area that has been a typical source of interest for the Select Committee, and I think we have all found it an interesting process to go through it and shed light on it. I think that for all of us it has been an interesting area to look through.

Chair: We are grateful. Thank you for your evidence, which we look through and put as part of our report. I thank the Ministers. Thank you, Andrew Forzani and Alastair Johnstone, for your time this evening. As ever, I thank the Committee, too, and all the staff. That brings to a conclusion this Defence Sub-Committee hearing.