

Public Accounts Committee

Oral evidence: Managing and replacing the Aspire contract, HC 705

Monday 27 October 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb; Mrs Anne McGuire; Austin Mitchell

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Rob Prideaux, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Lin Homer, Permanent Secretary, Mark Dearnley, Chief Digital and Information Officer, HM Revenue and Customs, and Andrew Levitt, Chief Executive Officer Aspire, Capgemini, gave evidence.

Q1 Chair: For greater understanding, we asked for a Cabinet Office representative to join us this afternoon; I was reading the papers last Wednesday or Thursday when I thought, “This is ridiculous. We need a Cabinet Office rep here.” They felt unable to provide anybody so we are inviting them—without any option to say no—to come at 2 o’clock on Wednesday because we need the two bits of evidence together.

Lin Homer: I believe that they have already written to you.

Q2 Chair: Only this morning—a hell of a long letter, which I have not even bothered to read because it is so technical. If they had the expertise to write me a letter, I think they had the expertise to come and be a witness beside you, which would have been better. It is one of those irritating things but we will talk to them on Wednesday. This is quite a complicated issue so I hope that we have our brains around it, and we have some very capable people giving evidence. I am going to start with you, Mr Dearnley; you have now been in post for over a year.

Mark Dearnley: Just over a year.

Q3 Chair: Have you looked at the predicted costs associated with the transition to a new, smaller contract regime?

Mark Dearnley: Yes. As part of building the business case for the replacement of Aspire, we are modelling all the costs that go into that.

Q4 Chair: So what are the predicted costs associated with a transition to a new, smaller contract regime? What are the costs associated with change?

Mark Dearnley: That is in the business case, which is going through approval at the moment.

Q5 Chair: What are they?

Mark Dearnley: We were not planning to talk about the business case in detail today because it still has to go through approval.

Q6 Chair: I am asking you. A key issue that we all want to focus on this afternoon is not only what is right and wrong about the existing contract, but the challenges of changing. A big question for us, as the value for money Committee, is: what are the costs associated with that change from Capgemini, Fujitsu et al, through to nobody with anything worth more than £100 million?

Lin Homer: It will in part depend on what we decide to do.

Q7 Chair: Then give us an idea of range.

Lin Homer: We are putting together a business case at the moment. We still have a while to go.

Q8 Mr Bacon: Sorry, when you say “a while to go”, do you mean a while before you have a full business case, or until the Aspire contract expires?

Lin Homer: We would anticipate being clear about our preferred option in the spring of next year. You will understand that there is a degree of commercial sensitivity about that.

Q9 Mr Bacon: Will you just remind us when the Aspire contract expires? It is in 2017, isn't it, but when in 2017?

Mark Dearnley: June.

Q10 Mr Bacon: If you had to retender it completely, how long do you think that would take you to do?

Lin Homer: One thing we will be looking at is the various options, but if you were to ask Mark the question about what he thinks the future should look like, one of our—

Mr Bacon: I think I will decide what questions we ask.

Q11 Chair: Richard, I want to try to get an answer to my question.

Lin Homer: I think the Chair wants to get back to her transitional costs.

Q12 Mr Bacon: The reason why we are interested in the transition is that we are interested in what happens from July 2017 onwards. The Chair and I are on the same page on this. Therefore, with respect, the question is not what the future looks like. My assessment of this is that it would take more than two years to retender a contract like this, so July 2017 is pretty near, actually, and you should be pretty near being in a position where you are able to retender, but, in your words, you are still some way away. You have been renegotiating the 2012 renegotiation, but without any conclusion so far, for two and a half years.

Lin Homer: One of the issues for us is, in looking forward, we would recognise that the Cabinet Office view about how you manage large IT is something we concur with. We are therefore not looking at going forward for a procurement that is the same as the large-scale procurement that we did.

Chair: I understand that.

Lin Homer: That will affect the costs.

Q13 Chair: I want to ask you a whole load of questions about transition. The first is, inevitably—rather than renegotiating or even looking at the sort of contract you have with Capgemini et al—renegotiating to get to where the Cabinet Office want you to get to will cost. That process of transition will cost. I want to have certainty from this Committee meeting. Give me the range of where you think those costs will be—just the cost of transition.

Mark Dearnley: In terms of the duration for transition, we think—

Q14 Chair: Sorry, the cost of transition.

Mark Dearnley: We are working through, in the business case, the detailed cost and the transformation that associates with it. For the pure cost of doing the commercial and technical part of the transition for the next two years, we have budgeted £5 million this year and £25 million the following year. I emphasise that those are budget figures at the moment. As we are going through the business case, we are reworking those, looking at the numbers of people and all the things required.

Q15 Chair: We will come on to Richard's point. But that is your staff cost. There will also be costs involved in transitioning staff and equipment, and perhaps offices. Right? So what is the broad range of that cost? I also want to ask you another transition cost question, just on that. I understand that you are setting aside £5 million for your own staffing costs.

Lin Homer: And £25 million.

Chair: Then there will be costs in transition involved in transitioning staff and equipment, and in getting hold of the office spaces that Mr Levitt and his organisation currently run.

Mark Dearnley: I can talk to you about the different areas of cost, but each option that we are considering at the moment has different costs associated with it and different models.

Q16 Chair: What is the range?

Mark Dearnley: I do not think I can tell you the ranges today, because we are still working through that part of the business case.

Q17 Chair: You must have some idea in your brain of what the range is.

Mark Dearnley: We think that by the time we have done the entire transition and look at the run rate for IT within HMRC, the total cost base will have come down more than 25%. But the actual costs of going through the transition are what we are working through, because, as you say, each option has different bits—whether there is TUPE involved, whether we are bringing people in-house, whether we are moving to other locations, the building element. On top of that, we have the transformation of the applications, because through this transition we need to rationalise applications, as we have too many today. Also, particularly in the area of hosting, just moving what we have today into a different world does not actually satisfy the needs of the Cabinet Office rules or anything we want to do. In that area we have quite a lot of infrastructure transformation work to do.

Q18 Mr Bacon: I am going to pursue that for a second. You are saying that because of the £100 million limit and because the current costs of hosting are £187 million, just switching it would not help or work—is that what you are saying?

Mark Dearnley: If I understand the rules correctly, the £100 million is for things other than hosting. The rules on hosting are to re-bid it every two years. But I know that we do not want to move forward with what we do today. Today we have very dedicated infrastructure. We actually agree with what the Cabinet Office says; we need to move it into the cloud and be able to leverage multiple clouds so that we can better manage our peak loads in areas like the SA peak and the tax credits peak.

Q19 Chair: Before you embark on this—I am sorry to pursue this—there seem to be costs associated with doing the work within HMRC. There are costs associated with transitioning people, equipment and property, but there are then other associated costs. I will give you a final opportunity to give us a figure or range. This is all going to be implemented in July 2017, in two and a half years' time. Are you telling me that you cannot give me a range today?

Mark Dearnley: The range is not accurate enough for me to give you it today.

Q20 Mr Bacon: When will your business case be ship-shape?

Mark Dearnley: The business case is going through the internal governance processes at the moment. We then go through a phase of external validation of it, which is just beginning, and we expect to have it ready for Christmas. That includes certain parts of the approval process within HMRC and then the Cabinet Office and HMT. We expect to be talking publicly about it early in the new year—in the spring. We need to do that to give not only contractual certainty but also certainty to the thousands of people involved in this, so that they know what will happen over the next few years and do not feel concerned for their own careers.

Q21 Chair: Will you meet the 2017 deadline?

Mark Dearnley: Yes.

Q22 Chair: Are you sure?

Mark Dearnley: Yes.

Q23 Mrs McGuire: With a major contract like this, regardless of which model you adopt, what is your anticipated lead-in time before you move out and start talking to suppliers?

Mark Dearnley: We expect to be talking in the spring about everything we want to do over the following two years.

Q24 Mrs McGuire: Have you factored in the reaction of those you will be approaching to deliver the service to HMRC? What is your anticipated lead-in time from the suppliers' point of view?

Mark Dearnley: We know that the suppliers are already watching us. They know the dates of the contract. In our modelling, if we can get out in the spring and tell everyone about it, we believe that they have plenty of time over two years—

Q25 Chair: If?

Mark Dearnley: When.

Q26 Chair: Are you telling the Committee that you will not extend the contract with Capgemini beyond 2017?

Mark Dearnley: We have no plans to extend it.

Q27 Mr Bacon: Mr Levitt, is it right that this is 64% of your UK public sector revenues? I have read different numbers—90% and 64%.

Andrew Levitt: It is approximately 60%.

Q28 Mr Bacon: And it is 9% of your global revenues?

Andrew Levitt: It is slightly less than that, but of that order.

Q29 Mr Bacon: Okay. In two years' time, you will apparently lose this because it will be given out in smaller chunks to other people. What are you going to do?

Andrew Levitt: The first point is that Capgemini is a large global organisation. It is very resilient and we have been aware of 2017 for a long time. It has all been factored into our plans. The second point, as Mark said, is that the Aspire contract will go out to tender in some form. We are not party to that planning at the moment but we would fully anticipate bidding for work ourselves.

Q30 Chair: We have talked about your costs and your inability to tell us about those, but have you factored risk into the costs of transition? If we look at the record of PAYE—that was just after you arrived, Lin, so you will remember that the chaos in transitioning to the new system meant that we effectively lost £1 billion in revenue. There are obviously massive risks in this undertaking. What is your estimate of the potential loss as we move away from Aspire to the new world?

Lin Homer: I do not think that we are anticipating a loss like the one we suffered with NPS in relation to yield. We have expectations—

Q31 Chair: You may have expectations. All I would say to you—the realist thing: you are doing a massive thing here. When, just even trying to do PAYE—I do not know if that was part of this contract; presumably it was—you lost £1 billion, I cannot believe that there is not a risk that we will lose money out of the £500 billion we currently collect through the Aspire contract during that transition. I just do not believe it, and I think you have got to have a figure in there for risk.

Lin Homer: We will definitely have, and indeed I think the NAO Report has, areas of risk, and we will definitely have a risk register and look at that. I think the NPS example is not particularly relevant, because I think the evidence that was given to you at the time was that HMRC accepted that that was not a result of technology issues between ourselves and Aspire. The RTI contract, which is more recent and which we have talked to you about on a number of occasions, was something we did together; and that has advanced our collection of tax by bringing more money in-year than the previous system did.

Q32 Chair: Listen, so far, according to this Report, only 3% of your IT expenditure you have put out to contract beyond the Aspire contract. I mean, you have got no ruddy experience of this at all.

Lin Homer: That is not true.

Q33 Chair: I cannot believe—you ought to, if you were sensible with business planning, put in a risk figure of potential loss of revenue, and you ought to be thinking of strategies to mitigate it, and if you are not doing that, that becomes a criticism from this Committee.

Lin Homer: You might let Mark tell you of the work we already do, because it is not true that it is all done through Aspire.

Q34 Chair: Well that is what this Report tells us.

Mark Dearnley: I think there are two elements to both what we do on a day-to-day basis, and also what we are doing to start bringing control of the projects in-house. First, on a day-to-day basis, actually 34% of all tax is brought in by systems that civil servants already run, and that is about to go up to 40% of the in-sourcing of CHIEF at the end of this year. So from the original Inland Revenue merger actually we kept the civil servants that ran that, and they bring in all of that revenue. So we do have a significant number of people—there are 300 of them—who are very experienced in running high-reliability platforms.

Q35 Chair: They do the coding.

Mark Dearnley: They do coding, yes.

Q36 Chair: Quite. Big deal.

Mark Dearnley: Yes, proper coding. They do proper coding, proper system running and proper administration, and if those systems do not work the ports stop, the ferries stop. It is real stuff.

On the projects, I would agree, this is a really important part of our transition. We have, over the last year, started to bring more both design and project work inside to HMRC, under our control. We now have, as of this year—because obviously this Report looks at last year: 40% by volume of all projects are now run by HMRC staff. These are largely in the digital space, because obviously that is our main growth area. Now, as of right now, that is still only 20% of the spend, because a huge proportion of our spend is on infrastructure and the projects around infrastructure, and they are still with Aspire; but that will start to move as we move more infrastructure towards a cloud-based model.

The other area that I think comes out very clearly in the Report is getting control of design, because it is the design that drives the cost base, and when we look at what we think will actually reduce costs over time, it is the use of cloud, and better design. We have grown and developed already, and we have more work to do over the next two years, our CTO function—our technical design function, so that more of the architecture is owned by us, more of the designs are certified by us.

Those three things: we have got the experience of running stuff, which we have to grow; we have got more and more control we are taking of delivering projects; and on design, which, if we get that right, will be the thing that changes the cost base and the service levels—we are doing more of that ourselves; and digital has been the vehicle that has helped us grow that.

Q37 Mrs McGuire: And all this is to be done in slightly over two years.

Mark Dearnley: Yes, we are a year into the project already on that one.

Q38 Mrs McGuire: Yes, but at this point, looking forward, you are talking about the spring, and all of that is going to be there.

Mark Dearnley: That gives us two and a half years. That is right. I would say, we have 1,500 people in HMRC in my Department today. There are some really good people that we already have, based on that history of doing things, and we have a lot of work to do with growing the team from the bottom, bringing in a lot of apprentices and graduates; we are growing the team at the top, bringing in experience both from the civil service and from industry, and then the area, actually, we start recruiting in the next couple of weeks, is our middle management layers and our technical experts to actually grow that capability. People are a really important part of this.

Q39 Chair: I think we all accept that and we will probably ask some more questions about people, but I just want to get a feel for something before the Comptroller and Auditor General comes in. There is a huge risk here. It is £500 billion of revenue. I cannot believe that in this whole redesign you have not thought about the risk to revenue or how much it is and that you have not thought about strategies to mitigate. Can you answer that bit of the question? You answered the other bit.

Mark Dearnley: We do worry about operational continuity—

Mr Bacon: That's a relief.

Mark Dearnley: It is very high on the risk register and we are looking at not only the day-to-day, but also the key business events that we have every year and at ensuring the timetable around those. It is one of the reasons why it is very important to us to get out early next year to the people involved in running Aspire today to give them clarity about what is going to happen over the next few years. What we really need is some of the really skilled people in Aspire today to continue working with HMRC, whether still with Capgemini, with other people or with us, depending on exactly how the contract is broken up and who wins it. We need to ensure that those people want to come on the journey with us.

Q40 Mr Bacon: It sounds a little like the reorganisation of the health service. There are lots of people whom you need and you make them move around and put different labels on them, but the same skills are still required. It sounds to me like you are doing this because you have to and because the Cabinet Office rules say so. Are you saying that you wouldn't have to do it if you didn't want to, Lin? You were shaking your head then.

Lin Homer: No, absolutely. We think it is the right thing to do.

Q41 Mr Bacon: That doesn't answer my question. I didn't ask, "Do you think it is the right thing to do?"

Lin Homer: We are not doing it because we are being made to do it by the Cabinet Office.

Q42 Mr Bacon: If you didn't want to do it, would you not have to do it?

Lin Homer: Yes. I think we—

Q43 Mr Bacon: Yes, you would have to do it.

Lin Homer: No. I think we have a good—

Q44 Mr Bacon: I thought this was a mandate.

Lin Homer: There are 19 red lines that are drawn by Cabinet Office. I know that Liam has set some of them out in his letter. There are provisions for—

Chair: We have not had the opportunity to read his letter. We only got it this morning.

Lin Homer: There are provisions for there to be exceptions. We don't think that we need any or many, because we think that this is what we want to do. I am confident however that our working relationship with Cabinet Office is strong enough that if we made a strong case for an exception, based on Mark's technical and professional knowledge, that we would get it. I don't think we would be forced into an area when we were technically and professionally unsure that it was the right thing to do. The reason why I am confident about that is that Cabinet Office and Treasury colleagues are completely built in to the steering-group mechanisms that Mark has put in place to plan the future.

Q45 Mr Bacon: Mr Dearnley, you mentioned that you have 1,500 people. The Report says that 95 of them work on Aspire. Mr Levitt, I think you have around 2,500 people in Capgemini working on Aspire.

Andrew Levitt: 2,500 at Capgemini.

Q46 Mr Bacon: And then other people work for the primes and other smaller subcontractors. Of the 4,000 in total, roughly how many of the other 1,500 are at Fujitsu, how many are at Accenture and how many are at the other 348 subcontractors?

Andrew Levitt: Most of the 1,500 will be Fujitsu.

Q47 Mr Bacon: How many of the 1,500?

Andrew Levitt: I would estimate 1,400. If you look at the 4,000 people, the majority are Capgemini and Fujitsu.

Q48 Mr Bacon: Then you have roughly 100 at Accenture.

Andrew Levitt: Of that order. I am happy to come back with precise figures.

Q49 Mr Bacon: Please do. We would love a note.

Underneath that, there are some 350 subcontractors who are employed to do specific things.

Andrew Levitt: Correct.

Q50 Mr Bacon: In the management of that process of, first of all, procurement—when one of the 350 subcontractors is asked to do something and it is commissioned and then done—who does that? Is it mostly people in Capgemini or in Fujitsu?

Andrew Levitt: It is both. Within both contracts we have subcontractors that we manage, so there will be a split between the two with probably more in Capgemini than in Fujitsu, but they are directly managed by Capgemini—

Q51 Mr Bacon: Of the 3,900 people—2,500 in Capgemini and 1,400 in Fujitsu—how many are engaged in the process of dealing with the subcontracts?

Andrew Levitt: I don't have that precise detail.

Q52 Mr Bacon: Give me a rough idea.

Andrew Levitt: I could not do that.

Q53 Mr Bacon: If Mr Dearnley is going to be doing it in the future—he has 95 people working on this at the moment—knowing that number is important. Plainly, the 95 is not going to go up to 3,900, is it, Mr Dearnley?

Mark Dearnley: No.

Q54 Mr Bacon: So, is it 96 or is it 3,899 or somewhere between? Presumably it is somewhere between one and the other.

Andrew Levitt: I could not give an answer to that here today. What it does highlight is understanding the plan. We do not have access to the plan, probably for good reasons given the competitive nature, and also the transition. Clearly, the question you have posed is something that needs addressing. It is part of a well-thought-through transition plan, which Mark and his HMRC guys will need to work through.

Q55 Mr Bacon: Mr Dearnley, all that management skill currently sits either with Capgemini or with Fujitsu for the most part. In this new world where there are going to be far more suppliers,

the need for the management of that skill, which you have effectively currently got outsourced with these two primes, is going to sit with you. Mr Levitt said that he needs clarity on this, and I am not sure from what you have said so far that you have got clarity on it yet.

Mark Dearnley: We have a model that shows exactly—

Q56 Chair: If you have got a model, you have got costs.

Lin Homer: And opportunities to make savings.

Q57 Chair: I want to know the costs. Why will you not share the costs with us?

Mr Bacon: Are you are prepared to talk about the savings, but not the costs?

Lin Homer: What we would say to you is that the overall ability to run this at a significantly lower cost as we go forward—

Q58 Chair: Well, tell us the costs of transition.

Mr Bacon: I would like to come on to costs, but let us stick with the management, the people and the skill. At the moment it sits in one place, and under your new model it will sit in a new place. The Chair wants to know how much it will cost. I want to know how much of it there is. So we want to know about quantity and cost, and then we might come on to another question: quality. You have already said the skills are going to continue to be required, even though they might be rebadged, so let us start with the people. Roughly how many people do you think you will need on top of the 95 you have got already?

Mark Dearnley: I will do this from memory. As I say, there are different options, different ways. Because of hosting changing and moving to cloud, the Fujitsu bit would not necessarily be included in this. What we see is a model where the number of people goes up significantly during the transition, and then post-transition comes down, but to about 50% more than we have today. We will repurpose a lot of people because they will not be managing the Aspire contract.

Q59 Mr Bacon: In other words, you might end up with 150.

Mark Dearnley: We might.

Q60 Mr Bacon: But you expect that there might be a bit of a peak before you drop down.

Mark Dearnley: There is also a different skill set as well that we will take through. From managing contracts to actually doing what is essentially post-merger integration works—repurposing all the contracts and renegotiating with all the suppliers—and then the ongoing work are quite different things.

Q61 Mr Bacon: Which all has a cost attached to it.

Lin Homer: It has a cost currently as well.

Q62 Mr Bacon: You have an ongoing maintenance cost, but you do not have a repurposing-the-contract cost. Changing the state is by definition a more costly exercise than maintaining the state.

Lin Homer: In-transition costs.

Mark Dearnley: So it is a one-off. Essentially, you have to novate all the contracts from Capgemini to us at a point during the transition.

Q63 Chair: What is the range of costs for that? You obviously have them. You are just not sharing them.

Mr Bacon: When you say it will shrink back to about 50% more than there are now—just prior to the Chair's point—we established it will fall back. It is 95; it will go up, and then fall back to 150. Roughly, what do you anticipate it will go up to before it falls back to 150?

Mark Dearnley: I think it goes up—

Q64 Mr Bacon: Don't worry; you do not have to sign your name in blood. If it is slightly wrong you can write to us.

Mark Dearnley: It goes up to circa 250. A lot of people are needed. Novation per se, hopefully, should not cost us anything. That is not the plan, because it is a contractual exercise of repurposing contracts instead of being aligned to a Capgemini—

Mr Bacon: You do not pay it there; you pay it there. And preferably a bit less.

Q65 Mrs McGuire: The Chairman of the Public Administration Committee said: "It would be a mistake to run before you can walk. Unless there are people in HMRC with the...skills in managing a number of smaller contracts then you will be jumping out of the frying pan into the fire." Bernard Jenkin is an experienced politician. I think he was a Government Minister at one point, and he is Chairman of the Public Administration Committee. They are flagging up, in terms of public administration, that the model might be very difficult for you to manage, given that it has been difficult to manage the current contract. How are you going to do it with up to 100 different suppliers? How are you going to create cohesion? This goes back to the risk. It is not just the cost; it is the risk-factor, and I do not think you are giving us confidence that you have thought it through.

Mark Dearnley: We are starting to do this now. In the past year we have changed the organisation, so that we have got clear accountability, particularly for operations. We are now starting to do this with more contracts, where we have been out to the market. Admittedly, it is not a large number yet, but we are starting to manage things operationally and in delivery more directly ourselves. One piece of transitional work that we have to do ahead of migration is to redesign our

business processes and all our systems, so that we can move from a world where there is one very large broken-down bill every month with Aspire, to a world where we can manage 400 suppliers and a supply chain for those.

Q66 Mrs McGuire: So you challenge the Chairman of the Public Administration Committee when he said it would be difficult unless you are effectively teeming over with people in HMRC to manage these contracts.

Mark Dearnley: We are starting now to do exactly what has been suggested there, which is to get it right.

Q67 Chair: Mr Dearnley, how many new people have you brought in, since you have been there in the last year? New people at the various levels, so take the top development level and then the others. How many have actually started?

Mark Dearnley: I have refactored my whole leadership team since I arrived, with a couple of exceptions. I will go through it. I brought in a new director of development, test and operations, who has come from Marks & Spencer, where he used to run all of operations. We have done a cross-Whitehall selection and selected a new head of IT delivery.

Chair: Who hasn't started yet.

Mark Dearnley: No, he is in.

Q68 Chair: He's in. Any shes?

Mark Dearnley: I am struggling with shes. I would love to but I can't; it is really hard.

Mrs McGuire: It is hard when women are not good enough for top jobs. I am being sarcastic by the way, just in case that was taken literally.

Mark Dearnley: Over 40% of my staff are women, which for an IT organisation is high.

Q69 Chair: But down the chain, not at the top.

Mark Dearnley: Yes. That is something we have got to work on and work through.

Q70 Mr Bacon: Have you got a scholarship programme to help?

Mark Dearnley: We are doing a number of things, particularly at the apprentice level, and throughout the organisation.

Q71 Chair: So that is two new directors that you talked about.

Mark Dearnley: Yes. I will come on to the digital side in a minute. You will have to forgive me—starting on 1 November, if that is allowed, is a new director of transformation for digital, so he will arrive. We have got an existing director of security who runs the whole Government security profession, so I could not find someone better than that. On top of that we have appointed a CTO, who had been at HMRC for a number of years, but also has external experience. We have been working very hard to get the top team right.

As I said earlier, we are now just starting to go out at the senior civil service level and grade 6 and 7 level to start to fill the skills.

Q72 Chair: But you have not recruited to those levels yet.

Mark Dearnley: I think we have brought one or two people in, though I couldn't tell you names. We have to do some serious recruitment in that area. At the lower levels, through our apprenticeship scheme and through setting up our digital delivery centres in Newcastle and London, we are starting to bring in a lot of new development talent.

Q73 Chair: How many?

Mark Dearnley: So far we have recruited—let me get my numbers right—26, and made 13 job offers last week. That takes us to 63 civil servants in those centres.

Q74 Mr Bacon: Has that sped up a lot since the publication of this Report in July?

Mark Dearnley: Yes, it has.

Mr Bacon: Funny, that.

Mark Dearnley: It is the timing. We have just got going. We kicked off the Aspire replacement programme in January, and by the time the Report came out, it was unfortunate that we really had not got it motoring. We did not want to say to NAO that we had when we hadn't.

Sir Amyas Morse: I understand that. As we listen, you would not think it unreasonable, I guess, for us to say that this a very big change. I don't regard that as a difficult point.

Lin Homer: Yes, I agree.

Mark Dearnley: Yes. I think I would agree.

Sir Amyas Morse: As we listen, we are trying to understand how aggressive the critical path you have committed yourselves to is. As I am thinking about this—there is not an awful lot of data—I am thinking, okay, they are going to want to run these things and trial them at the end. They are going to have to go through a process of contracting with all these providers and getting them all lined up, and find a way of talking to them all effectively, and you have just told us that you are going to redesign a lot of your internal processes and have new systems—and, and, and. And by the way, you look to me like a key man risk.

So taking all that, all I would counsel is that you think very carefully about what level of risk you have. You made an absolute statement at the beginning about how you would not possibly go past the end date of two and a half years or whatever it is. I know you don't want to sound like you will go past, but are you really that sure of your ground, or are you pushing it? If you had started with a clean sheet of paper, would you have given yourself longer than you have got to get all this done? It sounds like a pretty tough time scale to me.

Mark Dearnley: There is a lot to do, but I think pace is really important in this because we are talking about a lot of people's lives. One of the really important things to do is to give them clarity and certainty as we go through. I don't think I would sit here and ask for more time. We are fortunate in that we can leverage certain other frameworks that already exist from the Cabinet Office, like the G-Cloud and the digital services framework. Some of what would traditionally be very long procurement cycles we are able to work in a much more agile way.

Sir Amyas Morse: So if at some point in the period leading up to this we start hearing about you extending the Cap contract, it will tell us it is not going according to plan. Is that a fair judgment? I am not saying you are doing that, but if that happens, it would be a fair conclusion for the Committee to come to that that meant that things were slipping.

Lin Homer: I think sooner than that. We are not deliberately not sharing with you. It is just not the right stage. I would be more than happy for both of us, or just Mark, to come back and have a full conversation with you in the spring and to talk about our emerging planning, some of the detail of that and why we have confidence. I am sure some of the individual milestones we end up setting will shift. One rarely has a project when nothing does, but I think we have confidence that this is doable, and the spring would be a very good time to have a more detailed conversation with you.

Sir Amyas Morse: Finally, what about key man risk?

Lin Homer: Yes. I have nailed his feet to the floor.

Q75 Chair: What risk?

Lin Homer: The risk I would lose Mark.

Sir Amyas Morse: If you lose Mark, how much trouble are you in? I am not trying to polish you up; I am just asking a question.

Mark Dearnley: Two things. First, I have hired a great team and I am really pleased with it so far. This is never about one individual. Secondly, I genuinely believe there isn't a more interesting job in technology and digital in the UK, so I am probably in control of that risk.

Q76 Mr Bacon: You seem like a pretty good egg, but we have seen in many projects a huge turnover of chief information officers. Universal credit has had five or six. The national programme for IT in the health service would have a great new broom come along and announce that everything that would change, but in no time they were off and someone else came in on a white horse and all would be fine, but then they disappeared and someone else came in. Finally, because we had the armour and the white horse and the sword, we thought we had gripped it, but they then turned out to have feet of clay.

I am not saying that you have feet of clay. I don't think you have. You have a very good record from your background—I think you were in Vodafone. This is not you. You are obviously one of the factors, but it is really about building a team around you. You say you have a great team, and it is great that you have been hiring people at a rate of knots—it sounds like you have done that—but it is just that this is a very big change and it is being mandated from outside at a particular pace.

You said pace is important, and pace is all very well—I am not against getting things gone—but it was certainly the case with NPfIT that the single biggest problem was the absolute insistence on its being done at a very high rate without the suppliers knowing what they were expected to supply, and frankly without the Government knowing what they were expected to buy. The person who urged that pace is now the chief executive of the national health service—he was working in Downing street at the time. We have been here before. It is nothing personal, and I suspect that your track record commends you very well to this job, but it is a question of getting the bricks in place and not succumbing to absurd political timetables, which we have seen many times.

Lin Homer: When I first appeared in front of you in this role, one of the conversations we had was about the overall strength of the top team. We have been building a team that is both highly competent and collegiate. One of the other dependencies Mark has is that his DG colleagues need to be part of this planning. I think we both feel confident that—

Q77 Mr Bacon: One of the obvious signs that would have given us confidence was if the Cabinet Office, with which you are working closely, had turned up with you today. That would have been an index of confidence, mutual co-operation, partnership, joint working and all the rest of it.

Lin Homer: Far be it from me to say, in fairness to the Cabinet Office—

Chair: The Cabinet Office are coming on Wednesday.

Lin Homer: And I think you did ask them only last week.

Q78 Chair: Lin, can I ask you some questions? If this is all true, you signed the original memorandum to replace Aspire in January 2012. You were already there by then, weren't you?

Lin Homer: I was, but I was not the signatory. It was literally the week I arrived.

Chair: Okay. Well, it was signed.

Lin Homer: It was, yes, and I take responsibility for that.

Q79 Chair: You appointed Mr Dearnley more than 18 months later in October 2013. By February 2014—if you look at page 37, which contains a whole load of “I should have done this by then” type things—not a lot had happened. Another feature of this Committee's work is that we always get promises about the future. I think it is page 37—it is there somewhere. Rob, is that the right bit?

Lin Homer: “Conditions for success”, page 39.

Q80 Chair: The four phases. If you look at the section under the heading “Phase One: Feb 2014 to Jul 2014”, you can tell me whether all that has happened. For instance, you do not have a business plan because you are still negotiating, but you should have had it. You have not managed to remove Fujitsu’s right to exclusivity. You may have been acting on those negotiations, but there has been no result. You have recruited a few top people, but you have not recruited down throughout the organisation the sort of capability you will require to manage hundreds of contracts, have you? All I am saying is that it is always promises—mañana, mañana—with very little evidence to us that you are delivering.

Lin Homer: The MOA that I inherited from Lesley and Phil Pavitt was a good base for the period from 2012 to 2017. There are elements of that memorandum of agreement that I wish had gone a bit faster—Andrew knows that—but we did a significant number of things under the MOA, both while Phil was still with us and since Mark arrived, that are important prerequisites for the change. I accept that I would like to be a little further on with the novation, but we are aiming to complete it by the end of this year. We have made several important steps under the agreement of January 2012, which will be the platform on which we go forward.

Q81 Chair: But you can see why we are sceptical about your 2017 delivery.

Lin Homer: Absolutely, which is why—this is a genuine offer—I would really like us to come back and talk when we are a little further forward. We have a duty to the commercial world from which we will be procuring to go out properly and cleanly. It is nothing other than the fact that we are at a phase at which we are assessing a number of options, which we will then bring out.

Q82 Chair: We will think about having another session in March, when we are winding down.

Lin Homer: We would welcome that.

Q83 Chair: Can I ask you another question? You are doing this massive in-house recruitment, but I don’t get how that fits in with your headcount constraints, financial constraints and administration constraints. I don’t see how you square that circle.

Lin Homer: Overall, our spending review required us to make efficiency savings, like other Government Departments. I think the NAO’s work with us will confirm that we are on target to deliver those savings, and that we are slightly ahead of target. We will have reduced our spend by about 30%, but we have also had the benefit of investment in certain areas—you will sometimes say we should have asked for more. One part of that overall investment has been about things that generate additional yield and many of those lead to investment in technology. In addition, a £200 million figure was agreed with us to generally invest in digital. We are reducing numbers in some places and increasing them in others.

In this area, we may need to come to an agreement that in working out what efficiencies we are making, you do not just look at headcount. If some of what has been outsourced comes in, you

are going to have less contract spend, but more people. We may just have to ensure that the maths can be followed through.

We are confident that we are achieving the savings we were required to, and we are confident that these changes will give us the platform for making significant savings in the next spending review. I want to emphasise that there is a big transition, it is risky, and we will pay serious attention to the risks, but it also a significant opportunity for us to serve the country better and at a lower cost.

Q84 Mrs McGuire: So some of the recruitment will be from inside the civil service and other elements will be from the market.

Mark Dearnley: It will be a fair and open competition across both.

Q85 Mrs McGuire: Can I ask how you anticipate recruiting in what is a very competitive market where young, smart IT people cannot quite name their salary, but are certainly earning significantly more than anyone around this table—certainly on my side of it? How are you going to recruit in that market and get the brightest and the best to deal with what is becoming a really complex IT management issue?

Mark Dearnley: That worried me when we started this, because I had that concern. What we have found as we have gone out to the market is that because of the scale of the digital transformation we are doing, and the scale and enormity of IT within HMRC, we are extremely attractive. We are not going to build everything in London, which is an overheated part of the IT industry. That is why we have opened a centre in Newcastle, why we are doing things up in Manchester, why we will keep working in Telford, which is the main area where our teams are, and the same in Southend. As I say, we had the recruitment last week in Newcastle and we are actually finding that we are becoming a go-to place. We are looking at how we keep that sustainable, because this working for three years is not the right answer; it has got to be sustainable over five to 10 years. That is part of the planning we are doing in the business case.

Q86 Mrs McGuire: Is that your opinion on the market, Mr Levitt—that HMRC is such an attractive prospect that bright-eyed and bushy-tailed young IT experts will be flocking to it?

Andrew Levitt: First, it is fair to say that the IT market is fiercely competitive and we all have our challenges. It is equally fair to say that what HMRC is doing is ambitious and interesting.

Q87 Chair: And doable?

Andrew Levitt: Are we talking about the whole transition? I think from our assessment base and what we know, it is doable—

Q88 Chair: In the time frame?

Andrew Levitt: I think rapid progress is absolutely needed. Is it doable in the timeframe? We think it is, but there needs to be a very aggressive and ambitious plan to drive that.

Q89 Mrs McGuire: Can I deal with the issue of sustainable staffing? My impression of the IT industry is that people move around it. They chase the salary and they chase the challenges, as Mr Levitt has pointed out. What is going to be the sustainability of working with all of these smaller contractors for a project that needs some element of cohesion and sustainability in terms of the public finances—the money we are going to pull in?

Mark Dearnley: It is a mixture for both the HMRC staff and the third-party staff as well. We need to plan for a world of staff turnover over a number of years. What we will end up with is a number of people who join us and stay with us their whole career, which up to now has been a very high percentage—

Q90 Mrs McGuire: But you are going into a different market now.

Mark Dearnley: We are planning for that to be a much lower percentage in future. We will have a graduate recruitment process and an apprentice recruitment process, and we will need to overstaff and build the front-end pipeline. We will create skills that will be useful in the rest of the IT market, too. So we will lose 30% or 40% of our people after three or four years, and we have to plan for that. I actually think that that will create healthy turnover within our teams.

Q91 Mr Bacon: When you say “We will have a graduate recruitment process,” do you mean that, hitherto, there haven’t been any graduate recruits going into HMRC IT?

Mark Dearnley: We use the civil service graduate recruitment process, and we also have our own apprentices, but the volumes that we need to put through are much greater.

Q92 Chair: Give us the figures again.

Mark Dearnley: This year we did 17 apprentices, and next year we will do 35. I think it will go to three figures as we go forward—I see us going over 100. On the graduates, we will look at the relative benefits of apprentices and graduates.

Q93 Mr Bacon: Are these domain-specialist IT graduates?

Mark Dearnley: Yes.

Lin Homer: Part of going for some of the big city bases is that, bluntly, we will work with the universities in those areas. I would like to see us not only waiting until they work for us but thinking about whether there are projects that they can be doing with us. We think it is exciting work, and I think that the change that Mark is talking about is a change whereby we would accept that, for some of the young people who are working with us, doing a good job with us is career-enhancing, but we would hope and expect that others will follow and that, indeed, some of those people will come back to us at a later stage of their career.

Q94 Mrs McGuire: Are you expecting turnover to be about 40%? Is that what you are saying?

Mark Dearnley: For the new recruits. I don't think we would get to that level across the whole patch, but we will for the new ones that we bring in.

Lin Homer: Not literally every year will 30% of those who join us go, but we will expect a much higher degree of churn in this area, and we will plan for it.

Sir Amyas Morse: You said earlier that this is a risky transition, and of course I accept that it is. Is it one for which there is really no way but to keep going until you get it right? We have discussed real-time information, and we had that discussion about PAYE, too. I think the Committee supported flexibility by saying, "You have to go on until you get this right." Is this so central to your undertaking? Of course, I am not suggesting that we are at a stage where we don't think anything will go wrong, and I appreciate that, but suppose that it does go wrong at some time in the future. You will still have to hack it out, won't you? Is that fair? You will have to go on until you get it right.

Lin Homer: We don't envisage this as a single hit.

Sir Amyas Morse: Right, but it's a new way of providing the systems infrastructure. Having changed to that new method, you are going to have to make that work. I don't consider that a fault. I am just trying to understand.

Mark Dearnley: We will move to a model, but I would be very surprised if, three years later, the model is identical. I think this is a model that will iterate and iterate, develop and change. Some will be about how technology moves, and some will be about the needs within HMRC.

Sir Amyas Morse: Given that there are risks, what would you say they are? What are the primary risks that you face in this very extensive project? That is just so we understand what you think they are.

Lin Homer: We have already talked about the fact that we need to improve our own capability. We also accept that we need to ensure that we manage a wider range of procurement activities. The approach when we put this procurement out in 2004, and indeed the EDS approach before then, was a huge effort for 10 years, and then not very much. This is about procurement as we go forward, so we have to increase not only our technology skills but our commercial skills. We also need to ensure that we are better at designing what we need. We have taken a long time to scope and build some things, but we have then been locked into them for quite long periods. Some of that has meant that we have not been able to take advantage of changes in the market, not only in the way that things are done in HMRC but in the way they are done in the market. We have to have the kind of designing and architecture skills that we do not have. There are opportunities and risks throughout, and I suspect that, as we go forward, as with all risk management, we will not avoid all of those risks—you probably should not—but anticipating and mitigating them will be a big part of the shift.

Q95 Chair: Lin, I've got to say to you, that list is so cross-Government. You need commercial skills, IT capability—

Lin Homer: Which is why they're all in there—

Chair: No one else has solved it. Why on earth do you think you can do it within this very tight time frame, with so much at risk? We will come to Mr Levitt and how he manages the current contract, but it is £500 billion-worth of revenue that we depend on him to get. How you think you can do it astounds me. I don't believe it, because we have not seen a bit of Government where they have got the commercial risks; we have not seen it.

I sat down with John Browne the other day, had a cup of tea and said, "Which project has gone better?", and the only one was one he could not talk about; it was GCHQ. Getting the commercial skills, the IT skills, the design skills—we have failed across Government. Why should you do better?

Lin Homer: I would put RTI down as a good example of a major project that we have run recently, with Aspire —

Chair: Yes—they did it for you.

Lin Homer: No. It would be wrong to suggest that we've literally sat back. Indeed, if I may say so, Chair, I don't think it would have just been Aspire you would have asked to come to the Committee if something had gone wrong with RTI. I think you would have had me sitting here—

Chair: Because you are accounting officer.

Lin Homer: Yes. We have also done a number of smaller but very innovative projects. Mark could perhaps tell you about what we have done in relation to tax credits, where we have stood up a new digital offering in very short time, which was entirely built in-house and which within eight weeks delivered services for 400,000 people. So I reject the—

Q96 Chair: To a value of what?

Lin Homer: Well, the value of that one was 400,000 people who got their renewal done in time.

Q97 Chair: Actually, it is a different figure, because 85% of this is big projects that get money in—

Lin Homer: But some of the things that secure the £500 billion are NPS, which, although there were issues with serving people well, was a good basic system; and RTI, which has taken that further and is proving to be very adaptable and effective. Some of the big bits of kit are in place; this is not a greenfield site.

Q98 Austin Mitchell: Just having read the Cabinet Office paper, I know that it wants smaller contracts and more competition, to cut down the profits made by the companies. As I read about the profits, I think it is a good job for me to go into when I retire. There was about £1.2 billion profit for the two companies, which is about double what you estimated at the start of the outfit and about 60% of the revenues, so very high profit. However, is that a profit that you consider worth

paying? Have you inquired into the contract, and why it is so high? And is it a price worth paying for what has been a fairly efficient operation?

Lin Homer: The contract has increased in a number of ways since it was originally started back in 2004. Obviously, it was initially identified as a contract vehicle for Inland Revenue. When the merger became planned, Customs and Excise came in; that brought about an additional £1 billion into scope. Technology has just become a bigger and bigger part of our business, and I think that has brought another £3 billion into scope. And then we agreed an extension to 2017, which has brought about another £2.3 billion in. So—

Q99 Chair: You agreed that three years into the contract, which seems madness to me.

Lin Homer: I am just trying to articulate the elements—

Q100 Chair: It was mad, wasn't it? Three years into a contract, to agree an extension on a 10-year contract is madness.

Lin Homer: We would say that large contracts of this nature are not the right way to run the business in the future, but Mr Mitchell asked me—

Q101 Chair: So it was madness?

Lin Homer: Mr Mitchell asked me a question, and what I would want to say is that I think this has been a fairly expensive contract, but it has given us high quality and stability, and those were the things that were asked for when this contract was set—

Q102 Chair: Mr Dearnley, it was madness to extend the contract three years in.

Lin Homer: We have already said to you that we believe the changes that the Cabinet Office proposes—

Q103 Chair: Was it mad?

Lin Homer: I think it would be wrong to contract in that way again in the future.

Q104 Chair: Was it mad?

Lin Homer: I don't think it was at the time. I think this was the way IT was done. I don't think any of us understood how much technology was going to drive our business.

Q105 Chair: Three years into a contract. Even I, who am not the greatest IT expert, would not extend a contract three years in with another seven years to run, at a cost of £2.3 billion. It is madness.

Lin Homer: You always accuse me of jam tomorrow, but I would not envisage running another major 10-year contract.

Q106 Chair: Would you have done that, Mr Dearnley?

Mark Dearnley: I am with Lin on this. If you are here today looking at it, you would not do that now, but if you go back to then—

Q107 Mr Bacon: There are many things we would not have done if we had known then what we know today. Getting the chief executive of HMRC to admit to lunacy is a tall order, Chair; perhaps we should stop that line of questioning.

You said something interesting. You said that you thought it was quite an expensive contract, but that it had produced stability and high quality. Those are precisely the two things that are potentially at risk now.

Lin Homer: We don't think so.

Q108 Mr Bacon: You don't think the stability or the quality are at risk?

Lin Homer: No.

Q109 Mr Bacon: Are you saying that neither stability nor quality is on your risk register?

Lin Homer: No, I am saying that I don't think—

Q110 Mr Bacon: They are on your risk register?

Lin Homer: Of course they are.

Q111 Mr Bacon: So they are at risk.

Lin Homer: No. With a risk register, you look at the things you must avoid, and—

Q112 Mr Bacon: Indeed. I am not just being pedantic about this. The fact that it is a risk does not necessarily mean it will materialise.

Lin Homer: Exactly.

Q113 Mr Bacon: But plainly, quality and stability are big issues and big risks. They are at risk. You can mitigate that successfully, less successfully or unsuccessfully, but they are plainly big issues. In the environment that you are creating, other things being equal, instead of nice Mr Levitt there with his big balance sheet—he can take a lot of the heat and a lot of the pain if necessary. Mr Levitt, can you just remind us what the annual global revenues of Capgemini are?

Andrew Levitt: They are in the order of 10.5 billion euros.

Q114 Mr Bacon: Not to be sneezed at. Instead, you are going to move towards a new environment with lots of much smaller suppliers, so other things being equal, stability must be at increased risk compared with now, although admittedly the contract is expensive, and the quality will be at more risk of varying more up and down. You might find some brilliant supplier who can do something twice as reliably at half the price; of course that is possible, but the reverse is also possible. How you will mitigate those risks and control them is the interesting question, to return to what the Comptroller and Auditor General was asking you earlier. It is not yet clear to me that you are across how you will manage all these risks. That is my concern.

Mark Dearnley: You are quite right that both of those are on our risk register, and if you look at our risk score, it is currently very high, for exactly that reason. What we are doing as we produce the business case is working through how we will mitigate those on an ongoing basis and through the transition. A lot of this will be down to the way we manage and transition and the changes in our delivery model. We are moving away from longer waterfall projects to shorter agile projects, so that when things go wrong, as I am sure they will, we will be on top of them more quickly and can react to them more quickly, and they will not be huge things but smaller things.

Mr Bacon: Lots of small, early, cheap failures, in other words.

Q115 Chair: The difference with HMRC is that you say “as I am sure they will”. If it were a bank sitting there—we will come to some of the mistakes you make—I do not think you could say that. Some of your back-office stuff might go wrong— I can understand that—but all your front-office stuff, the collecting and giving out of money, should never go wrong. There is far too much of an attitude here that it doesn’t matter; it’s only a 100,000 people here or 200,000 there. If you were running a bank, you would be sacked on the back of that.

Mark Dearnley: It matters enormously—

Q116 Chair: It should never go wrong.

Mark Dearnley —that every day, everything works. That is what we get out of bed to do each morning: to make sure, not only for customers but for our staff, that it works. As Lin said, a lot of this is not about building shiny new things. This is actually about building on and improving the things we already have.

Q117Chair: But you said some things will go wrong. If you were running a bank, you wouldn't accept that, and I think if you are running HMRC, any of the front-facing stuff should never go wrong.

Mark Dearnley: I wouldn't feel it fair to say nothing will ever go wrong, because I think that isn't true.

Lin Homer: Nor would the sectors you mentioned. What I would accept, and what we absolutely want to emphasise, is that the purpose behind making some of the changes we are making is to deliver improved customer service while ensuring continued security. We have mentioned our security function. Ensuring that we can give people online opportunities, but safely, is a big part of our forward planning. Right at the heart of this is better customer service. It is not necessarily about locking everything down and not changing it. Part of what we believe we will be able to do is adjust as the market produces new opportunities that are better for customer service. We have got lots of current examples of doing some of that. We have got apps for small businesses, generated in-house and with our providers. We would not have dreamed of having them available a few years ago, but they are becoming really important in giving small businesses the ability to thrive. Customer service lies right at the heart of this and is on the same page as bringing in the money.

Chair: I look forward to you telling us that, if anything goes wrong.

Q118 Guto Bebb: As it happens, the last answer touched upon the question I was going to ask. I have been listening carefully, and my concern is that we are moving from a one-size-fits-all policy, which was the case with IT contracts, to a decision made centrally that we have to have smaller contracts, because the centre says that that is the best way forward. I am not yet convinced on the reasons you have given on why the smaller contract profile will be a better way forward.

You touched on some examples of new options being offered. Do you think that those new options for small businesses are more likely with smaller contracts and what you described in management speak as a more agile way of doing work than with the current deal that you have in place? In other words, has the current deal been less flexible than it should have been?

Lin Homer: I think innovation and the use of SMEs is something that we want to do. Perhaps I will ask Mark to give some examples.

Mark Dearnley: We are just rolling out a new telephony contract, which is one of the first ones that we bid independently. That was with a small firm called Kcom, a relatively small telco. By working with them sat with our front-line staff and understanding what it means for all their solutions, they have not only been able to implement more quickly, but implement in a way that means our staff satisfaction has gone up. The contract also means that we will bring in more innovative solutions, such as online chat and secure messaging, much more quickly than we would have done. This way will allow us to do a lot more and more quickly. It is just a different mindset with how people are working.

Q119 Guto Bebb: On the answer you have just given, you are doing that with the Aspire contract running in tandem. You have the ability to be very flexible with a small contract on a specific issue, but you also have the stability that Mr Bacon was talking about with the deal with Aspire.

Mark Dearnley: I think that the way to look at it is that when Aspire breaks up, there will still be quite large chunks. There will not be lots of situations where four or five people are working on things; these will still be large contracts. I am not sure they will be big enough for them all to get to £100 million, but they are still significant pieces that will need to be run by people who understand service management.

Lin Homer: Names that you will know and recognise.

Q120 Mr Bacon: Mr Levitt, do you think that some of your people will go off and form start-ups to bid for some of this work? Is that something you are anticipating? It might not be good for you, but in the environment—the landscape—do you think that that is likely to happen?

Andrew Levitt: I would have thought that that is more unlikely.

Q121 Austin Mitchell: If the prospects for the big contracts are damaged in the way the Cabinet Office seems to think by being turned into lots of small contracts, have the prospects for big contracts not been damaged by the inordinate level of profits on this?

Andrew Levitt: I am not sure I agree that it is an inordinate amount of profit.

Mr Bacon: It is 15.8%, Austin; it is not inordinate.

Austin Mitchell: It is high.

Andrew Levitt: It is entirely the industry norm. If you take the NAO's benchmark with comparators across public contracts, the Aspire margin was actually lower. We are confident that it is an industry norm margin.

Coming back to your points, I think that all these models can be made to work. There are benefits, and a long-term deal such as Aspire very much satisfied HMRC's ambitions. We have a rock-solid service on which to collect £500 billion of tax. That needs to be considered very carefully, as I am sure everybody has mentioned today, but equally, organisations such as ourselves understand how to run contracts that have been broken up, which includes multiple SIs, or systems and service integrators, and SMEs as well.

The critical factor is understanding what the objectives are and looking at the model that best fits that, and then having a credible plan to make sure that when it all goes across, we do not leave anything that does not work, because there are not many organisations that collect £500 billion a year through systems.

If you look at the Cabinet Office guidelines, it is not for us to agree or disagree; it is policy. Those models can be made to work. There are organisations out there that are making those models work. They bring with them different levels of risk and complexity and I come back to my previous point—it all comes down to the planning and transition, and frankly, from a Capgemini point of view, we have always sought to be a responsible partner to HMRC, and we would see ourselves playing a critical role as we work through that transition. I think that it is not in anybody's interest for the outcome of 2017 to be anything other than a success.

Q122 Guto Bebb: On that specific point, when I read the Report, paragraph 2.5 was a concern. It said that the management information does not allow HMRC to identify what they have been doing well and what the Aspire contract has allowed HMRC to do well.

In view of the fact that we have been told, in effect, that we can pick and choose the best aspects of what has been going on at the moment and be more innovative moving forward, in view of the lack of management information highlighted in paragraph 2.5, are we now in a position where we know what the Inland Revenue, or HMRC, have been doing well and what the Aspire contract has allowed you to do well? Are we in that position now, or do we still have that lack of management information?

Lin Homer: The nature of the contract has given us a lot of information—there is open-book accounting, for instance—but as you have described yourselves, it has been a contract that we have stood back from, so the work that Mark is doing to enhance our capability and expertise is growing our opportunity to say, “If you do it like this, you get these results, and if you do it like that, you get those results.” By the time we make our final proposals within the business case, we are confident that we will be able to weigh up the benefits and the risks associated with—

Q123 Chair: Lin, you have not answered the question: have you currently got the data to monitor properly?

Lin Homer: With a large contract like this, we do not have all the moving-parts data. The contract did not require us to be given that and part of the need is for us to have the expert capability to test different models. So we are in transition towards that, yes, but the nature of the big 10-year contract is that you kind of gave it away and said, “Do it for me.” There are huge pluses around that and there are some minuses.

In relation to the comment made by Mr Bacon and by you, Chair, we are not the only people doing this. Many of the big organisation sectors have gone in this direction. It is not some shift that we are making against a trend. You would not see many contracts like our 2004 contract happening in big business any more. This shift is being made across the industry.

Q124 Guto Bebb: I would accept that that shift is happening, but my concern is this: we see the ability to bring money in being extremely good—I think we have been very complimentary as a Committee about the ability to bring money in.

Lin Homer: We appreciate that.

Q125 Guto Bebb: But there is a concern that you are moving away from a contract—a contract that, as you said, has given a great deal of stability in that relationship—but by your own admission, you cannot tell me what is working well because of that contract and what is working well because of changes in policy, or because of any small contracts going on within your departments. That clearly must be a concern, and you can understand why the Committee has that concern.

Lin Homer: I am sorry if it sounded like that. We can give you examples. I think that we would say that much of our digital work is being powered internally by views we have about how our business is going to go—

Q126 Guto Bebb: Can you give some examples then?

Mark Dearnley: On the digital point, Lin has already talked about our tax credits renewal one, which is an app we built in eight weeks, and as she said, 410,000 people used it. There are two other areas we have going on at the moment. First, there are all the digital exemplars we are doing with GDS. We now have three of those: one that allows you to switch over from getting paper from us to getting digital messaging from us; one that allows you to update your company car tax—it is the first in a series around PAYE; and one that is for business, so that all their tax affairs are in one single account space.

The other big one is that we are digitising all our forms. We have 300 live so far. Today we have moved them from being paper to being a version that you can use on your phone or your tablet. If you go to one today, there is a button that says “Print” at the end, so I am not entirely happy. In a few weeks’ time, we will have the first one that says “Submit”. As Verify comes online, and more and more people can log into their account, you will be able to go online and do more and more things.

Lin Homer: Before we started the i-forms, how many forms did we have?

Mark Dearnley: We had 1,700 paper forms. By doing the i-forms, we have managed to prove that, from memory, about 300 or 400 were obsolete, but we were still printing them. We will rationalise the whole thing—you don’t need continuation sheets and things like that when you go online—and we will get it down to about 500 or 600 in the end. We hope to have all those forms online by the end of this financial year.

Lin Homer: The other thing I would want to say again—Mark said it, and I’ve said it—is that we don’t envisage the future being solely about SMEs and tiny contracts. We think it will be about a wider range, but some of our bits of business are still going to be done in large chunks, and we still hope and expect that the big players will be very interested in working with us. This is very much a mixed economy going forwards. We don’t see hundreds and hundreds of little things being juggled by Mark single-handedly; we will have some big players alongside us continuing to give us their input into these important systems.

Q127 Mr Bacon: We have 350 subcontractors at the moment—hundreds and hundreds. Given what you have just said, will the big players still be running lots of subcontracts?

Lin Homer: Not necessarily, but the big players will still be running some big bits of kit for us and will have their own subcontractors. Aspire has 360 already—

Mr Bacon: That was my point.

Lin Homer: But at the moment everything goes in through Aspire and fans out from there. In the future, we see our capability growing and us running our own future more hands-on. I just

wanted to give the lie to the suggestion that the big players would be off the scene; they will be there as one very important part of a more mixed economy.

Q128 Mrs McGuire: How will you reconcile that with the Cabinet Office guidance?

Lin Homer: We think it does.

Q129 Mrs McGuire: You think it does?

Lin Homer: Yes, absolutely.

Q130 Mrs McGuire: My second question is that you have had major difficulty in managing the costs of one contract. How are you going to manage the costs when you have scores of contractors out there? Part of this is about having the confidence to know that you actually have the expertise inside HMRC at the moment to manage the transition and that we are not going to end up in another few years' time—in 2017 or whenever—looking at something that is in danger of failing because you don't actually have the expertise to do what you think you can do. You talk a good game, but, frankly, given some of the other disasters in IT, we are not entirely convinced. I think that is why we have been spending so much time on this issue this afternoon.

Mark Dearnley: When we talk about managing all these subcontractors, it is important to remember that a lot of them are involved in software contracts. In a project, we will have a number of software vendors whose products we are using—be they proprietary products or open source with a support contract around them. Then we will have a number of development partners who are working on it, and operations people will be running it.

In terms of how we know if the costs are likely to increase or how we control the costs, this comes back to my earlier comment about having much more in-house control over the design. It is in the design and the understanding of the architecture that costs are made; the business processes and the technical architecture are where you set the costs and where you can see if things are going to go wrong.

On many areas we will commence the teams during the transition phases. Can we do this all alone, or should we do this all alone? No. In a number of areas, we will be growing our skills, growing our numbers and growing our capability, but during this period we will also bring in experts who have done this before—not in large numbers, but small specialist firms to help us with this transition, because it is a big undertaking. In any post-merger integration work, you would bring in specialists to help manage that journey.

Q131 Mrs McGuire: Does that mean you take issue with the NAO's recommendation c on page 10: that "HMRC's capability needs are unlikely to be met solely through developing existing staff"?

Lin Homer: Not at all.

Mark Dearnley: No. That is exactly what I just said: no, we will not do it just with existing staff. We will bring new staff in and we will use specialist help to get us through this transition.

Q132 Chair: I want to go to your record, because this is all jam tomorrow, when you finally become the first Department in government to recruit all these skills that every other Department has failed to recruit. If I take you to figure 8 on page 27, let us go to the meat of where we are now.

That is your record so far. You may not have been there, but that is the record of the Department. So far you have told us that you have got 1,525 or so new people, so we are working with whom we have. If we look at the 2007 change, that is when you extended the contract—I am not allowed to say it is mad, but it is not something that you would do now.

Would you accept that it was unwise for HMRC to lose its right to withdraw services from Aspire? So that it could withdraw services and fund the bit at the bottom. That is the record of how you are managing this stuff at the moment. You only have one, not 300-odd ones to manage.

Lin Homer: That page captures quite neatly a number of phases of change in this contract. We would want, in looking forwards, to balance off the immediate desire to save money against the confidence that we are saving money sustainably.

One of the things that we have been trying to do more recently is make sure that the changes we are making do save money, because as I've said before it is reasonable for any Government to expect us to be reducing spend when public sector spending is reducing, and to do so in a way that not only has short-term benefits, but medium and longer-term benefits. We are planning a set of changes that we think will be in the sustainable savings framework—

Q133 Chair: Lin, this is where I go with Guto. This is all about, “We’re doing, we’re doing, we’re doing”, but let us look at your record. The Department—before you were there; I accept that—gave away in 2007 the right to withdraw services from Aspire and to procure them. In 2009, even more horribly, it gave away the right to benchmark services until 2011, and it gave away the right to share profits, which cost us. According to the NAO, it gave away £55 million. Your record! With those three things, and the fourth one being the extending of the contract three years in to 2017, those are four major concessions that just look, commercially, from this perspective here, to be really ill-advised—if I may use that term.

Lin Homer: We have to learn some lessons about what we did in the past, why we did it and how we can do it differently. I repeat two examples, with which we are showing you evidence—not jam tomorrow, but current evidence—that we have done that.

First, the MOA in 2012 anchored us into a position that begins to allow us to change shape for the future. There is a lot of useful stuff in that, and that is evidence—

Q134 Chair: That is intent, Lin. It has not affected—you have not managed to renegotiate the contracts directly with Fujitsu or Accenture, have you?

Lin Homer: We have not completed the novation, but we are—

Chair: You signed this in January 2012; we are now at the end of October 2014 and you have not done it.

Lin Homer: There are significant elements of that MOU that have been delivered—

Q135 Chair: Those are two key things—that direct relationship with Fujitsu and Accenture were key bits of that MOU—but two and a half years later we have not done it.

Lin Homer: We are working to deliver by the end of the year this novation with Fujitsu, and that is important to us—

Chair: Oh Lin! “Working towards”—but you have not done it and it is nearly three years.

Lin Homer: You may want to talk to Andrew about that, but I believe that we have a strong commitment to deliver that.

Secondly, when we put RTI into effect, you saw us learn a great deal from some of our previous experiences of transitioning large contracts. That has largely been a project where we have given ourselves space to make the necessary changes as we went along and we have largely landed that. There was quite a lot of talk at the beginning of that—one of my early discussions with you was about this—that it would all be very difficult, and I am not pretending that every step has been pain-free, but we learnt a lot of important things and landed a big, substantial change very well.

We have strengthened the team—Mark has taken you through some of the changes made at senior and lower level—and we are working very closely with both the Treasury and the Cabinet Office to move this forward as a whole-of-Government team. All those things do cause me to feel that we can make the transition.

But, just to be clear, we cannot stay where we are. If I were to sit here and suggest to you that I am going to extend Andrew’s contract for another five years, you would rightly challenge me on that. We have to make a transition.

Q136 Chair: We are not asking you that, but the record to date on managing this contract and implementing the memorandum—

Lin Homer: I would say it is getting better.

Q137 Chair: Well, I hate to say this, but what we are hearing from you is a little bit like what we hear from DWP, which is the good-news syndrome: you give us the little bit of good news on RTI, and the big things—

Lin Homer: It is not a little bit of news.

Q138 Chair: The renegotiation with Fujitsu has not happened and we see these disastrous concessions given through the contract.

Lin Homer: RTI probably advanced billions of pounds' worth of PAYE payments into the year they should have been in. It is already working for both ourselves and DWP to ensure that we give better service to both individuals and the country. It is a major contract and we have learnt a significant number of lessons.

I absolutely expect us to sit here for some moments to discuss future projects with you as we go forwards, but we are building the ability to do things differently in a way that gives me confidence about our ability to handle this more complex environment.

Q139 Mr Bacon: Can you step back for a minute and describe, in a couple of sentences, how the model that you are moving towards will look in 2017?

Lin Homer: I am happy to do that. As I say, we have not reached the point of making firm decisions, but we are clear that, in the future, we will not contract for a decade through one prime and withdraw from maintaining the expertise internally to be a strong and active client. We would want to do that to get better value for money without losing quality or increasing risk and we would want to enable ourselves to move speedily with the changes which we believe will continue to happen at pace in the technology environment.

Q140 Mr Bacon: I asked you to describe in a couple of sentences what it would look like, but you responded by telling me what you were not going to do.

Lin Homer: Because until the spring we will not have absolutely gone through a range of options and said, "It's going to be like this." We will happily come back. The range of options we will look at will be in the spectrum covered by that description.

Q141 Mr Bacon: Where else in Government has this process been implemented?

Lin Homer: There are a number of smaller examples of it in Government, but this is one—

Q142 Mr Bacon: Such as?

Lin Homer: Some of what we have done already in HMRC.

Q143 Mr Bacon: No, I am talking about elsewhere in Government.

Lin Homer: Some of what is happening in the Ministry of Justice around their provision of desktops is being done through Agile.

Chair: Golly, that's not an example.

Lin Homer: I was going to say that I think this will be one of the biggest—because it was always one of the biggest—10-year contracts and it is coming to an end in 2017.

Q144 Mr Bacon: You leapt forward to describe the MOJ getting some desktops through Agile. I was really asking you to compare the process you are going through to get to a point that you can characterise in a couple of sentences by 2017, which you said you could not do yet. Then, when I asked you for an example elsewhere in Government, you used that example about buying some desktops. Are you saying that this process, which you cannot characterise in any detail now and will not be able to do until the spring, is essentially an Agile procurement method?

Lin Homer: It is certainly more Agile, but it will contain some big chunks. If we talk about customs handling of import and export freight, which we are running out into procurement fairly soon, that is the replacement for the system that gives permission to goods as they enter the country. That is a significant contract which is up for renewal. We will procure that through an Agile process.

Q145 Chair: You just cancelled the procurement on that.

Lin Homer: No, we haven't.

Chair: You did, in the summer.

Lin Homer: No, no.

Chair: Well, I have got it down that there was an invitation to tender and you cancelled it.

Mark Dearnley: What we have moved away from on CHIEF is: instead of going out for a large, turn-key, black-box approach to the solution, we have actually said, "We will stop that process"—

Q146 Mr Bacon: Before you move on, can you just translate "turn-key, black-box" into English, so that we know exactly what it is that you are not going to do?

Mark Dearnley: Sorry. What we are not going to do is a one-off procurement exercise for the complete replacement of CHIEF when the new union customs code comes in in 2017.

Q147 Mr Bacon: And by "black box", you mean—?

Mark Dearnley: Single, here is the contract, come back when you have done it—

Mr Bacon: And don't tell us how. And we cannot see inside the black box.

Mark Dearnley: Don't tell us how, and you can have the IPR—

Q148 Chair: What did you stop in the summer?

Mark Dearnley: We stopped the process to do just that procurement approach. Instead, what we have said is that we have a reference architecture for how we are going to build it, so our high-level design, and we are going to work—we start in a few weeks' time—to build the alpha trial

of proving that that reference architecture will work, involving the end customers, some of our staff and some specialist SMEs. When we are clear on that, we will then decide how we go to market—whether we are going to build some of it ourselves, whether we are going to build some with other parties, or whether we are going to buy some of the components that would plug in as ready-made software.

Q149 Mr Bacon: Given the nature of these procurements—the history of Government IT procurement is replete with delay—and given how much you still do not know, it seems remarkable how sure you seem to be that you are going to get there by July 2017. That is what I find—I will use the word—incredible, because it does not look to me as though you have got the bricks in place for it.

Lin Homer: We are not quite at the point where we can show you all the bricks. I'm really sorry.

Q150 Chair: But you are three years in, Lin, from the memorandum of understanding. That was signed in January 2012, and now you are saying to us, "Come back in March 2015 and we might have a business plan."

Lin Homer: Mr Levitt wanted to comment on the MOU, to reinforce my points.

Andrew Levitt: I just wanted to comment on figure 8. I think there was a comment about £55 million on reliefs. If I can just explain it, if you look at a lot of these commercial agreements, the intent has always been that we are able to answer a challenge that HMRC has. That, a lot of the time, comes back to creating savings, and over time we are able to recover that cost in some way. Ultimately, we end up, in the round, with an industry norm margin. It feels to me a very equitable thing to do. If you take the £55 million reliefs give from HMRC, that was part of a much wider deal that generated savings to HMRC of £750 million. So my only point in all of this is that just by picking on one or two things—

Q151 Chair: It doesn't matter. There was an agreement, Mr Levitt, around sharing of profits. Right? That agreement was shelved to the detriment of the taxpayer. It is as simple as that. You may say that you have made fantastic savings with the pressure, and I grant you that. That is fair enough. But there was an absolute thing in the contract that we would share profits from savings, and that was shelved.

Amyas Morse: Can I just come in in support of that, Margaret? Comparing that with where we are going to be in future, for better or worse, whether we think it was excellent to modify it in those ways or not, and whether we think you have got a pretty nice deal out of it or not—let us set that aside. By having a major partner with as much financial depth and as much length of commitment and future interest as you had with Capgemini, when you came under budgetary pressure and you needed to find some savings—that is really just about annual budget management, and in the light of future austerity I think we can say that it is probably not going to go away—you had a partner who could take a fairly long view and negotiate with you on looking forward. I am just not so clear that you would be able to do that, and maybe it does not matter that you will not. When you have got lots of suppliers and you are getting stuff from various clouds and so forth, will you have that capacity? Or are you going to have people with whom you have much more short-term,

precisely contractual relationships, who are not really prepared to come and go with you as much as that? I am genuinely curious as to how that is going to work when you are running your budget strategy.

Lin Homer: We think that competition is a good thing, and not every 10 years but more frequently. If you are running with a number of suppliers in a market in which new products are coming to market regularly, we think that that gives us more direct control. We have, of course, benefited from a long-standing and stable relationship with Aspire, but, in a sense, there are still elements that are hardwired into the existing contract that are difficult to change.

For example, we are hardwired into a lot of proprietary kit. It is built and maintained for us. If we use it extensively, we might get good value, but if our usage drops, we are not getting that high usage. For example, in CPU storage, which is one thing we are given through the contract, our rate of usage of what is made available to us is very low—around 6% or 7%, compared with an industry norm of 25% to 30%. You do not go too high because then your peak times are hard to manage, but it is that kind of thing. There is security and stability versus adaptability and the opportunity to take advantage of new offers as they come forward.

Of course, there is the benefit of hindsight, and it may well be that my successor in 10 years says, “That was really interesting. We have had 10 years of doing it that way and are now swinging back to having big, monolithic contracts.” One isn’t to say, but there are pluses and minuses. Our current view is that we can build the capability and expertise to drive better value for the taxpayer out of one of the very big chunks of our spend.

Amyas Morse: I was really asking about disruptive demands to cut your budget and the effect of that on the programme.

Lin Homer: I made the point earlier that it is really important that we have a forward-going business plan with sustainable plans to save money, and that we do those at the pace we believe that we can, not an artificially imposed pace. I would have to say that, in our work with the Cabinet Office so far, we have had very strong support for that. The pace at which we are planning our digital work is not as fast as some people would like it to be, but we believe it is deliverable. For example, Mike Bracken is a very strong supporter of us moving at the correct pace in order to deliver good service. It has to be sustainable savings; you have told us that and we agree with you.

Q152 Austin Mitchell: I am still trying to get my head around this Cabinet Office thing about long-term contracts versus lots of little contracts. It is a bit like deciding whether you employ Snow White, which is you, Mr Levitt, and Snow White employs the seven dwarfs, Dave Dee, Dozy, Beaky, Mick & Tich—although I don’t think that they were the seven dwarfs—or you employ the seven dwarfs individually. I do not know the computer industry as well as Richard, so I do not know which is better, but while you have had one big contractor, Capgemini has made a good rate of profit on it, but that is partly because of changes that you kept making. I am not sure of your competence to take on a lot of little contractors, given the fact that when you replaced the 12 regional national insurance and PAYE centres with one national service, you made a real balls of it. You lost about £1 billion in revenue forgone and it cost something like £75 million to put right. That does not tell me

that you are going to be competent to handle a lot of little contracts without the supervising role of a big contractor.

Lin Homer: I might ask Mark to explain how we go about devising projects, but the point I would make is that we have landed some of our big initiatives very well. I concede that the decisions made around NPS—which, as I said before, I do not think anyone believes were down to Aspire—were more about our general administrative ability in HMRC than technology. The underpinning changes NPS has brought are good for PAYE—they are the base on which we built RTI. There has already been a significant transformation of our basic infrastructure. There are some other big bits to come, but I do think we are showing the skills to both scope and deliver those things.

Mark Dearnley: In terms of the chunks of work—I'm not sure I'll go with the seven dwarves—we would group the different areas logically. We talk a bit about that in figure 12. I am talking about things like all the people who are focused on data analytics, SAP, which does our finances—

Lin Homer: A big system.

Mark Dearnley: A huge system. There is also personal tax and business tax. I am talking about starting to group things in logical ways so that you can feel the service. The layer you are talking about across the top, which I think is referred to in Liam's note as the service and system integrator—

Q153 Chair: None of us has read his note.

Mark Dearnley: Okay. That layer is typically called the service and system integrator—the SSI layer, which goes on top. That is where we are going through the options of how we do that. Do we contract a firm to be the SSI, or is that a skill set that we want to create and develop within HMRC? There are pros and cons to both.

Q154 Chair: That's what they do for you at the moment.

Mark Dearnley: They do that as well as managing all the bits.

Q155 Chair: Basically they are a systems integrator, so you will replace them with somebody else, or they may win the contract, probably at a higher price.

Mark Dearnley: Or we may do more of it ourselves, yes.

Chair: Can I ask about Fujitsu?

Mr Bacon: Before we move off the Cabinet Office note—

Chair: Have you read it?

Q156 Mr Bacon: I did, actually, although there was a bit that I didn't understand. Hopefully Mr Dearnley can explain it to me. On the last page, there is a section called "Cabinet Office: Leading by Example"—always a good thing—which says: "The Cabinet Office is also leading by example. After successful pilots and a huge amount of user research and preparation, it"—the Cabinet Office—"has started the roll-out of new IT and already has nearly 200 civil servants, early adopters, across the Cabinet Office using technology that is as good as they have at home." Are we to take it, then, that people who work for the civil service have better IT at home than they do at work?

Mark Dearnley: I won't speak on behalf of Liam, but in HMRC, sadly, the answer to that question today is yes. And we are working to fix that, but on one of the big programmes—

Q157 Mr Bacon: So this isn't a mistake.

Mark Dearnley: No. People have better IT at home than we currently offer them in HMRC. We are 70% of the way through, as of this morning, rolling out Windows 7. They are the latest versions—

Q158 Mr Bacon: Well, let's not get into whether the later offers from Microsoft are better than the earlier versions, because my spleen might burst. I used to be very adept at Excel 1, 2 and 3. I have noticed my facility with it going steadily downwards as they bring forward new iterations, and the same is now true of Outlook.

This is not a mistake. It is basically saying that what they have at home is better than what you can offer them in the workplace.

Mark Dearnley: Correct.

Lin Homer: Yes, and we intend to change—

Q159 Mr Bacon: Wouldn't the obvious conclusion from that be to have everybody work at home and save a lot of costs?

Mark Dearnley: No, because there is a security angle to that as well. We wouldn't just want them to access it from home.

Q160 Chair: Can I ask about Fujitsu? The Cabinet Office has decided Fujitsu should get no further contracts after the DWP and NHS IT fiascos, yet you are continuing to renegotiate this contract for 2009, which you said you would negotiate at the beginning of 2012 and you are now hoping to have in place by the end of 2014. Is that right? You are carrying on doing work with them.

Lin Homer: Yes.

Q161 Chair: Although the Cabinet Office says—is that because it's an existing contract?

Lin Homer: Look, the Cabinet Office are fully involved with this. You know that the Cabinet Office have been working with many of the large providers to get changes in approach where they think that is appropriate. But we are confident that the Cabinet Office know and understand the role that we are envisaging and are supportive.

Q162 Chair: Do just tell me straight, Lin. My understanding, completely straight, is that Fujitsu is not going to get any further Government contracts. That's the Cabinet Office decision. That's absolutely out there.

Lin Homer: I don't think that is absolutely out there and I certainly don't think the Cabinet Office are telling us that the work we are planning to do with Aspire—

Chair: Am I wrong about this? I think it's just common knowledge. Do you want to comment?

Richard Brown: I don't know.

Mr Bacon: If it was in the *Daily Mail*, it must be true, Margaret.

Chair: It wasn't in the—

Lin Homer: There we go. If that's your source, I must be mistaken.

Mr Bacon: I recommend you watch "The Daily Mail Song" on YouTube. It's worth anybody's two minutes.

Chair: On Fujitsu?

Q163 Mr Bacon: Not on Fujitsu—on the *Daily Mail* itself. What I would like to know is to what extent the arbitration that took place between the Government and Fujitsu over the national programme for IT in the health service and the settlement of that has been prayed in aid or parleyed in these negotiations.

Lin Homer: Not at all.

Q164 Mr Bacon: So where does the Cabinet Office Crown supplier piece come in, because the whole point of that is to treat suppliers as suppliers to the Crown as a whole? In fact, we had one of the Crown representatives before us not that long ago.

Lin Homer: There is definitely a growing intent and actuality for the Government to have a significant relationship with each major supplier.

Q165 Mr Bacon: If the Crown representatives had nothing to do with the discussions with Fujitsu in relation to this contract and—

Lin Homer: The Crown representative is absolutely sighted and, as I said earlier, the Cabinet Office is heavily involved in all that we are doing on the Aspire contract. They sit on the steering group and are involved in all our discussions.

Q166 Chair: What does involved mean? They approve?

Lin Homer: They are part of it.

Q167 Mr Bacon: Presumably, by “sighted” you mean that they see everything.

Lin Homer: Yes, and take part.

Q168 Mr Bacon: Presumably they are also sighted in relation to the arbitration that took place between the Government and Fujitsu on the national programme for IT in the health service. At the time—it happened to be some years ago—Fujitsu originally, it was rumoured, threatened to sue for £700 million because it had a contract with the Government, which it was willing to carry on carrying out but the Government, in the form of Connecting for Health, said they did not want it to carry that out. There was a massive arbitration, which has taken several years and still makes me regret that I did not become a lawyer. There are lots of rich lawyers around the place and we hear rumours of a settlement of some kind—apparently £400 million rather than £700 million. I do not know if that is an accurate number. You said that that process played no part in the other negotiations, notwithstanding the fact that the same Crown representative is sighted on both of them.

Lin Homer: I misunderstood you. Fujitsu has not played that into any of our discussions. The Crown representative is a significant part of our work with Fujitsu.

Q169 Mr Bacon: Fujitsu might not have done, but did the Crown representative play it into the discussions?

Lin Homer: He will be aware of all of that.

Q170 Mr Bacon: Being aware of it and playing it in are different things. The whole point of the Crown representative is that Mr and Mrs Taxpayer and, indeed, the unmarried taxpayers among us—

Lin Homer: We have not been told by the Cabinet Office that there is anything in our current plans that causes it concern or anything that it would eventually put a block to in what we are proposing to do around this period.

Chair: Anne has just found that it wasn't the *Daily Mail*.

Mrs McGuire: An advantage of having technology in the Committee is to enhance your credibility. It wasn't the *Daily Mail*, it was the *Financial Times*.

Mr Bacon: I didn't say that it was the *Daily Mail*. I said that if it is in the *Daily Mail*, you can believe it.

Q171 Chair: Let me turn you to page 28, paragraph 3.7 in the Report, which tells us that Fujitsu has been the main provider for the data centre service, which is 23% of the Aspire contract. The last sentence says, "This is confirmed by recent benchmarking which shows that HMRC's use of its data centre service is below industry average, indicating relatively low productivity." That suggests to me that your value for money, out of nearly a quarter of the Aspire contract, is poor.

Lin Homer: That was the example that I tried to use but Mark will probably be better at it.

Mark Dearnley: One of the challenges that we have today is that we have a large number of servers across a number of data centres—the compute power. The average utilisation of that compute power is 6.7%. I will explain two reasons why that is low and then why it is not acceptable. It will be lower than normal for a business such as ours because we have big peaks—the self-assessment peak in January and the tax credits one in July. You have to size everything for the peak. It is also more complicated in our environment because of the security requirements and because things are segregated between different environments so that things cannot move between. Therefore, you tend to have lower utilisation, but 6.7% is very low. As Lin said, we should be aiming somewhere between 30% to 40% for our environment, and a different organisation would want it slightly higher. That—we have been through this and had long conversations with the NAO as we were putting the Report together—is a combination of the design and the execution. This one statistic is the fundamental argument for moving to the cloud. By moving away from proprietary, dedicated infrastructure to a virtualised environment in the cloud, we will start to transform the cost base of running technology in HMRC. Also, if we can get it so that we can use multiple clouds across that, it will help us with our reliability, because if one goes wrong, the other one will be able to pick up the load.

That is harder than I just made it sound, because some things work very well in the cloud—again, I think GDS referenced one in their paper. Websites work incredibly well. When you get into large systems with big back-end databases, where every transaction has to be done in real time and they all have to stay synchronised, it is much harder. But one of our big transition plans, as we come out of Aspire into the future, is virtualisation and moving all of our applications into cloud-based infrastructure.

Q172 Chair: With a risk to accuracy.

Mark Dearnley: That is why we have to get it right. The lower utilisation means that we can guarantee that it will be right. That is why I say we will not get much beyond about 40%, I don't think, because we will need to keep that level of—

Q173 Chair: Just to say to you, I am now reading something else, *ComputerWeekly*, which says: "The Cabinet Office has blacklisted Fujitsu and another IT supplier from tendering for government IT contracts because they constitute too high a risk. According to FT.com, Fujitsu will not be considered by the Cabinet Office for new government projects".

Mark Dearnley: That is not something we have seen. We continue to work with Fujitsu and are doing some very interesting things with them around the future shape of clouds.

Q174 Mr Bacon: Either this is untrue or it is true. If it is untrue, it is not surprising that you have not heard about it, but if it is true, it is slightly worrying that you do not know about it.

Mark Dearnley: As Lin says, we have Bill Crothers and Liam Maxwell on our steering committee. I am pretty sure that they would both be quite happy to tell us if it was not true.

Mr Bacon: If one of them had agreed to come today we would probably just be able to ask them.

Q175 Chair: May I turn to you, Mr Levitt? You have made profits, between all of you, of £1.2 billion over the life of the contract. If I read it properly, looking at the 2013-14 figure, you made a profit from HMRC work alone of £86 million. You also have a contract with DEFRA, with BIS and with the police. You have a little contract—relatively little—with the DFE, with the DWP, with the FCO and with the MOJ. Just looking at the one I know most about from preparing for today, which is the one with HMRC, how much corporation tax did you pay in the UK in 2013-14?

Andrew Levitt: I am not an expert in that field. We are Capgemini in the UK. It is UK registered and pays tax in the UK at the right rate. We have paid all the taxes due, and that has been audited.

Q176 Chair: How much corporation tax did you pay?

Andrew Levitt: I do not have that information.

Q177 Chair: You knew I was going to ask you this question. I ask it of everybody in these sorts of circumstances, so it is not a surprise.

Andrew Levitt: Chair, I have not been at one of these before. I can provide that information—

Q178 Chair: But you will have watched. I know what preparation goes into this. Don't tell me you didn't know. What it suggests to me is that you have not paid a fair amount on the profits you make on the back of taxpayers, Mr Levitt—it is taxpayers who are paying this.

Andrew Levitt: I know that we have paid all taxes due.

Chair: That is very woolly.

Q179 Mr Bacon: How do you know that? Did you get that in your briefing? Did you have a special session where you were briefed and trained for this hearing? Obviously, one hopes you did some preparation for this, but did you have advice in helping you prepare for today?

Andrew Levitt: In terms of this hearing?

Mr Bacon: Yes.

Andrew Levitt: Of course I did.

Q180 Mr Bacon: And did that include the statement that you have paid all the taxes that are due?

Andrew Levitt: It didn't.

Q181 Mr Bacon: But you just know anyway?

Andrew Levitt: I am aware that we have paid all our taxes. What I don't know, I will follow up on—

Q182 Chair: That's what Google says to us, and Amazon.

Andrew Levitt: I don't think we even compare with Google and Amazon. I am very happy to come back to this Committee with a statement of how much tax we pay. I will do that.

Q183 Chair: How much corporation tax you pay in particular. What I am particularly interested in is, what proportion of your British business is public sector?

Andrew Levitt: Around about 64%.

Q184 Chair: We know that this contract is 9%, or thereabouts, of your total global revenues. We know that. That is in the public domain. You should be paying a hefty amount of corporation tax to the British Government. What really gets my goat—I say it time and time again—is that your profits are funded by taxpayers. That is where this money comes from. I think that you therefore have a complete moral duty to pay your fair share. If you can find a legal way around it, that is not good enough for me.

Andrew Levitt: I will provide the information to the Committee.

Q185 Chair: What information will you give us? Will you tell us how much corporation tax you paid into the UK coffers in 2013-14?

Andrew Levitt: Yes, I will.

Mr Bacon: As a law-maker, you could always pass a different law.

Chair: Absolutely. I would, if I could.

Q186 Mrs McGuire: We have talked at quite a high level about the changes being made and whether we have got the model right. I am wondering what you are doing to engage with your staff. I raise that because some of the difficulties that the DWP is facing with universal credit—I am not asking you to proffer an opinion—mean that many of their staff feel that it is unworkable and that they cannot do it or do not have the resources. Regardless of our opinion of the principle of universal credit, there is certainly an understanding that is in some difficulty. There is the high-level stuff that we have talked about, but what have you done to engage with the staff who will be on the front line and on the receiving end of any angry phone calls? Could you explain how you are doing that? Part of the risk assessment is how the front-facing staff have to deal with it.

Lin Homer: I totally agree. We are having conversations with our staff on every aspect of our future planning. We are calling that “Building our future”. We are just doing the second phase, which involves having at least a two-hour conversation with every member of staff—in groups, not one to one. In the first round, we talked generally about the future and invited them to tell us the areas they were most concerned about. One of those, unsurprisingly, was technology. To return to Mr Bacon’s point, one of their arguments is, “We have faster, better kit at home. When are you going to give us the tools of the trade?” In phase 2, technology within the overall working environment is one of the two topics we are talking about; the customer is the other. Mark and his people are a huge part of that.

Mark Dearnley: We are out in every single one of those roadshows to deal with, “Why isn’t it better at work than at home?”

Lin Homer: And how it could be.

Mark Dearnley: As we then look forward to “Building our future” 3 and 4, Aspire replacement is one of the things scheduled into those later conversations. But it is on the back of having built credibility that we can deliver good enough, working, reliable technology inside the organisation as well. People are a big part of our plan.

Lin Homer: As is involving them in the design. You will have experts but you will test, each step of the way, with front-line staff. We did what Mark described with the telephony and have been doing it in some of our case management and digital stuff. We think that that helps us to build better products.

Q187 Mrs McGuire: A couple of hours ago, you mentioned TUPE as one of the issues you were looking at as well.

Mark Dearnley: TUPE has to be considered at the end of the contract—depending where pieces of it go, we have to look after the individuals through that. Whether they are TUPE-ing or staying within Capgemini if they win some parts, whether they are moving to other organisations or becoming in-house, we have to take TUPE into account.

Mrs McGuire: I just wanted to clarify that I had not misheard you.

Q188 Chair: Lin, can I ask you about the stuff we have seen with HMRC recently? There have been rather depressing statistics on tax receipts, which are less than the same period last year—we

are comparing like with like, but I know there is a feeling that they will go up. Do you want to comment on income tax receipts? The tax gap is also up.

Lin Homer: I think there has been, understandably, some discussion about income tax and NI not yielding what was anticipated. From the reports that have been published by DWP and HMT, there is a view that we are seeing weak earnings growth but also changing work patterns. The bulk of that, we think, is coming from the economy not responding in exactly the way that was anticipated. We do not believe that that is coming out of issues about how we collect. If anything, our collection, as I said earlier, we think is not only remaining strong, but improving. So that would be the pattern, we think, on income tax.

Q189 Chair: So that suggestion—you think the tax take is lower than you predicted; because I have heard excuses, saying in the latter half of the year you will get a bit more in when people do self-assessments.

Lin Homer: Well, we release our statistics regularly.

Q190 Chair: But do you think the stats show a downward trend?

Lin Homer: We think there may be some changes going on, and, you know, to some extent those may be a reaction to the recession, and, indeed, there are things going on, moving people out of paying income tax, which have been modelled, but it may be that we are seeing a bigger impact on that.

Q191 Chair: Yes, but you knew about that, didn't you? I mean you knew the personal allowances were going—

Lin Homer: We anticipated. Our clever folk thought they had worked all of that out, but obviously you know we go back and we reassess, and the figures we publish show that, but we don't think that that is coming out of issues about collection, although obviously we would expect to keep challenging ourselves on that.

On the tax gap, yes, we have published this year. I am sure you have read at least the headlines, but there is a full report to go with the tax gap, and I think, as I said last year, what we believe is that our tax gap methodology is both very thorough, it is confirmed by the IMF to be a logical and sensible way to build a tax gap picture, and the long-term trend is broadly downwards. Last year it moved a couple of per cent. down, and I said you have got to think about this as a long-term trend, and this year has moved a couple—0.2, not 2.0—the other way; but the long-term trend is from about 8.5% where we started to 6.8%.

Q192 Chair: Can I just tell you what worries me about it? I understand the long-term trend, but what worries me about it is that, okay, it is one year's figures, and we hope that they change, but it is after you have had all the input of additional staffing agreed by Parliament to help you tackle that tax gap; so despite that increase in resources—I cannot remember how many they were—of extra people, the gap is up. That is the first thing, and it is looking at your own figures on compliance activities; you know, you are down. Your take on that is down in the quarter.

On what is particularly worrying, one thing is the evasion—illicit cigarette sales. We have dealt with that here. They are up, costing us £1.1 billion extra lost on that. Criminal tax—up nearly £1 billion; and depressingly the gap for corporation tax also up from 8.47% to 8.7%. You would have thought, given all the energy this Committee has put into that, that might be one figure that we saw moving in a different direction. So it is deeply depressing that with extra resources it is up—the gap is up—and it is particularly depressing that it is up on things that we have looked at, like illicit cigarette sales, criminal tax and corporation tax.

Lin Homer: I would agree with you that I think we believe we do still have a really large challenge on tobacco. I think the last time we talked about it with you we were honest, and said that we are seeing a really different mode of operating among the definitely criminal gangs that are involved; and we have seen them move away from significant large shipments, which, if you find it, you stop it in its tracks, to a much more diffuse approach. What this year's figure shows—we have still got a really big challenge there. So we are working on that, and I think it is important that we do.

Again, I would say, overall, the share of the illicit market has over recent years trended downwards, but it is definitely plateauing. In relation to hand-rolled tobacco, it is actually increasing—

Q193 Chair: Nine per cent. of all sales, as compared to 7% in 2011-12, are the figures I have.

Lin Homer: Well, the illicit market in hand-rolling is bigger than that and—

Q194 Chair: Hand-rolled; but 9% across tobacco, as compared to 7% two years ago.

Lin Homer: Yes. I think last time we were here we accepted that we are seeing real challenge in that area, and we will keep doing our best to bring our whole compliance toolkit to bear on that. It is a very lucrative market across Europe and we have discussed with you the fact that we are fighting that fight with colleagues, rather than on our own.

The second thing that I would say is that VAT is slightly unpredictable and that people pay VAT slightly erratically. If you look at the VAT picture over time, it goes up and down, but the gap is widening slightly at the moment. I think we will want to see one or two more quarters to judge whether we are seeing some of the normal unpredictability in VAT or whether there is a significant trend. Again, VAT is an area where we see some deliberate attempts at abuse, and we would accept that that remains a challenge.

Overall, if you put all that in the context of the investment that has been made in us, we are maintaining a slow but steady downward trend on the tax gap. In these difficult areas, we are at least keeping a lid on it. I am clear that in some places our compliance activity holds rather than diminishes, but overall we have been diminishing.

Q195 Chair: What you haven't answered is that you have extra people in there.

Lin Homer: Yes, and that has ensured that we have increased our overall compliance take and—

Q196 Chair: But the gap is growing.

Lin Homer: The gap has grown marginally this year. The trend is downwards. That is what I said last year when the figures were just the other way around. We have no reason to suspect at the moment that our movement towards reducing the tax gap over a number of years has been reversed, but there are definitely challenging areas, one of which is tobacco.

Q197 Guto Bebb: On income tax, you mentioned that you have been modelling around the decision to increase the personal allowance quite dramatically. Does your modelling take into account any impact on behavioural changes? Representing a constituency in which 35%-plus people run a small business, I am concerned that the VAT threshold has a behavioural impact on small businesses. I am increasingly getting husband and wife partnerships saying, "We can do £20,000 tax free now. Why would we do any more?" Is your modelling taking that sort of issue into account?

Lin Homer: We do a lot of work with the Treasury to consider behavioural issues. I am afraid that I cannot say off the top of my head whether we have looked for any disincentives out of the greater flexibility for both individuals and small businesses.

Q198 Guto Bebb: I am just hearing it for the first time from small businesses.

Lin Homer: I shall take that back and feed that into the machine and check. We would certainly obviously keep an eye open for places where we have effectively developed a cliff edge that affects behaviour negatively. I discuss with you a lot that we believe behavioural insight to be an important tool for us and that nudging does work. If we came across an area where we have nudged people into a non-entrepreneurial form of behaviour, we would want to understand that.

Q199 Mr Bacon: While on the subject of various forms of illicit activity, I would like to go back to what we were talking about for most of the hearing, namely the whole question of the shift in how you procure IT services. It is not necessarily routine, but there have been plenty of cases of 15 and 16-year-olds hacking their way into the Pentagon over the years. A criminally minded person who was also IT savvy might decide that a sensible thing to do would be to mount a criminal attack against HMRC. In an environment in which the suppliers to HMRC are more variegated, there will be more opportunities for getting inside the system and creating what would effectively be IT scams. I sat next to the chief technology officer of one of the world's leading software companies at an event and we happened to be talking about online banking. I asked him, "Do you do online banking?" His response was, "God no. I know far too much." My prejudice, as it turns out, was exactly the same as his. I don't know as much as him, but my prejudice turned out to be exactly the same. What do you spend on security to prevent such attacks?

Lin Homer: You're right that we are very attractive both to serious and organised criminals and to people who just want to show that they can disrupt. I don't know whether Mark can answer the question directly, because we build it in to everything that we do. Our identity assurance approach, which we are building and growing at the moment, would be a big part of that security, but we also have a team that does nothing but security and they work for Mark.

Mark Dearnley: We have a couple of different approaches on the cyber-side. We have a team dedicated just to the phishing challenge. This year they have already responded to 75,000 e-mails from customers and have shut down about 4,200 websites. So we go very much at that consumer end, but we also have a team dedicated to cyber-monitoring and keeping on top of any cyber-attacks. Over the next year we will open two cyber command centres to watch all of our platforms. Part of the digital investment is to be able to monitor everything that is going on across all our systems from front to back so that we can start to spot this.

It is a really important area for us. If we do not get this right, our whole digital strategy will not work. We work very closely with GCHQ to make sure we have every bit of intelligence that they know. We also work very closely with GDS on the new identity assurance, which is a good step forward for individual citizens, and we continue to develop the business side of that. It is a huge area of focus. I said earlier that I am very lucky to have Jonathan Lloyd-White as my head of security. He is the Government's Head of Profession, and we spend a lot of time worrying about it.

Chair: Thank you very much indeed.