



Science and Technology Committee

Oral evidence: [Future of the Food and Environment Research Agency, HC 1070](#)

Wednesday 25 February 2015

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Members present: Andrew Miller (Chair); Dan Byles; Jim Dowd; Stephen Metcalfe; Stephen Mosley; Pamela Nash; Graham Stringer

Questions 1-111

Witnesses: **Chris Sellers**, Executive Director, Strategic Sales, Capita, **Dr Dan Heard**, Market Director (Science), Capita, and **Professor Robert Edwards**, Head of the School of Agriculture, Food and Rural Development, Newcastle University, gave evidence.

Q1 Chair: Good morning, gentlemen. We are a small select group this morning. There is an awful lot going on in the House, but some of our colleagues will be joining us during the course of the session. It would be helpful if, just for the record, you would be kind enough to introduce yourselves.

Dr Heard: Good morning. I am Dan Heard. I am Capita's market director for science. Throughout the period that we have been looking at FERA, I have been focusing specifically on the scientific aspects of the FERA project, particularly the relationship with science partners, such as Newcastle University.

Chris Sellers: Good morning. I am Chris Sellers, an executive director at Capita. My responsibility is the setting up and creation of our new public/private partnerships.

Professor Edwards: Good morning. I am Professor Robert Edwards. I am head of the School of Agriculture, Food and Rural Development at Newcastle University.

Q2 Chair: Thank you. The last sentence in the ministerial statement made by Elizabeth Truss on 11 February says: "It is intended that the new joint venture will commence operating on 1 April." Is there any doubt in your minds whether that will happen? Is it a done deal now?

Chris Sellers: I am probably best placed to answer that one. As with all procurements, they are never done until the lawyers say they are absolutely done. We have agreed all principles with DEFRA; it is just a matter of dotting the i's and crossing the t's. That is in

progress as we speak. We have no reason to believe that we will not be able to hit those time lines, but it would not be for me to say for sure.

Q3 Chair: And the nature of that deal will be in the public domain.

Chris Sellers: Absolutely; yes.

Q4 Chair: Therefore, there is nothing around the deal that we will want to discuss today that you would regard as commercially confidential.

Chris Sellers: Only that we are still in a formal procurement process because the contract has not yet been signed, but we will be as helpful as we can to the Committee and as open as we possibly can.

Q5 Chair: Mr Sellers, why did you want to get involved in this joint venture with FERA?

Chris Sellers: The scientific capability of FERA in the agri-food sector is undoubted. It is unchallenged. The more that we looked at the capabilities that are there, the more excited we got, because we did not believe that those capabilities were being maximised—to maximise the impact they could have in terms of benefit to the public and the environment. The reasons around that are that, in its current form, there are certain constraints placed on FERA, such as only a one-year view on any funding that is available to them, making it difficult to make longer-term funding arrangements. They are not able to make speculative investment in science, so any science that they do needs to be fully funded at point of go-ahead. Also, they are not able to invest in things like marketing and sales skills, because that is not part of their scientific remit. Therefore, as we looked at that, the joint venture that DEFRA came forward with and proposed looked really exciting to us, because we felt it was an opportunity to create a joint venture with complementary skills from ourselves, from the people who already run the FERA organisation and also people like Newcastle University, so that we could create a true end-to-end, from science on the bench right the way through to practical application in the field.

Q6 Chair: This is a DEFRA proposition, and you responded to this proposition, so how did you end up in partnership with Newcastle?

Chris Sellers: Dan, it is probably best for you to answer that.

Dr Heard: We went round the country speaking to a large number of universities and other research institutes to find the most complementary fit for the expertise that is already in FERA. We were looking, for example, at institutions that had complementary capabilities. Newcastle University has experimental farms at Cockle Park and Nafferton, which are a really good fit with FERA's science.

There are a couple of other things as well that we wanted to look for in a science partner. One of those was an organisation that did not want to take control of FERA's science strategy. It is really important that FERA's science strategy is its own, and remains its own. Newcastle University were very clear about that. They were also very clear that they did not want to shut down the partnerships—Rob may want to say more about this; Newcastle saw themselves as a gateway to the wider research base, through the N8 group of universities and others. The final point is that we were looking for a partner where it was more than just words, and Newcastle University were willing to make a significant investment of £4.5 million in a joint institute, which we think will bring significant opportunities for FERA to grow its science capability.

Q7 Chair: We know, because it is well documented, of Newcastle's prowess in certain scientific disciplines. Indeed, the House of Lords were debating part of this last night, in a different field. What we do not know is what Capita brings to the table in terms of science. We understand your business skills, but what do you bring to the table in terms of science?

Chris Sellers: Capita does not deliver large-scale scientific operations at the moment. We have made that very clear all the way through. It is the joint venture that will be delivering FERA, that will be running FERA. The joint venture is a combination of the scientists who are already there, the management team that is already running FERA, who clearly have the skills and capability to deliver science; coupled with the input from Newcastle University, suddenly you have a joint venture that does have the skills and capability. One final and really important point for me is that DEFRA is still a joint venture partner in the proposed model going forward, so people like Nick Joicey and Professor Ian Boyd are on the board. That board has to sign off and agree the science strategy for FERA. We believe that the joint venture collectively has all the scientific skills, as well as the business skills and the academic skills to make this work.

Q8 Chair: This Committee is interested in ensuring that the UK science base is properly protected in deals like this. There have been examples in the past where disposals of Government assets have resulted in damage being done to the science base. The questions we are asking today are in that context. In the contract notice it states that the service contract is up to 10 years. Is there scope for Capita to sell all or part of its shares in the joint venture before the 10 years are up?

Chris Sellers: No. An important characteristic of this relationship is that the joint venture goes on for ever. It is not constrained by the 10 years. That is the nature of the joint venture. The 10 years that you refer to are to do with what is called the long-term service agreement, which is between FERA and DEFRA, to provide the services that are critical to DEFRA. The first five years are fully agreed and committed to, and it is in DEFRA's gift to extend for a further five years, hence the 10 years of that agreement.

I guess the important point from Capita's point of view is that this business does not work without the investment in science. The whole nature of FERA as a business proposition—its differentiation—is the quality and areas of competence of its science. That is why, in the agreement that we have with DEFRA, the contracted agreement, we have committed

not only to the up-front payment to DEFRA, which is significant, but also to £10 million of investment in the scientific capability within FERA. That is a contracted and committed proposal.

Q9 Chair: You see yourself in it for the long haul.

Chris Sellers: Absolutely right. To be honest with you, there is no way that we would put that amount of money up front in any kind of deal if we were not in it for the long haul. This is a long-term business venture for us.

Q10 Stephen Metcalfe: I want to explore this service agreement a little bit, if I may, and work out how the priorities are going to work between the Government and the commercial world. I understand that the bee, plant and GM inspectorate have already transferred back to DEFRA. Is that correct?

Dr Heard: Yes. You are absolutely right. The scope of the joint venture will not be the same as FERA historically. It is a bit smaller, so the plant and bee health inspectorate, the GM inspectorate and the Government decontamination service will remain with the Government.

Q11 Stephen Metcalfe: Can you expand on that? What are the core functions and the core science that will be in the new venture? What will remain in FERA and what will go back to DEFRA, so that we can have an understanding of what your role will be?

Dr Heard: The functions that are going back are primarily the regulatory functions. The functions that are remaining in FERA are all their seven main areas of science—food quality and safety, the Centre for Chemical Safety and Stewardship, proficiency testing, those sorts of things. All the seven areas of core capability, primarily around food and plant health, will remain within FERA.

Q12 Stephen Metcalfe: Okay. As part of this joint venture, you want also to offer your services—FERA's services—outside just Government. You have already talked about a service level agreement between yourselves and Government. How will you allocate priorities? What will be the main driver: your functions and services to Government, or your wish to expand and commercialise services outside Government?

Chris Sellers: Our priority is to Government. They are the prime client of FERA and will remain that for the foreseeable future. That is the whole purpose of the long-term service agreement that is agreed now, up front, before the joint venture even kicks off. For example, as part of that, the whole emergency response capability is contracted. There are 46 scientists who are ring-fenced as part of that agreement, so in the event of an emergency that response capability is there, is maintained there and is probably more clearly documented as now being there and available 24/7 than it has ever been.

Q13 Stephen Metcalfe: You cannot envisage a point at which you would have to choose between providing emergency support to Government over and above any commercial activities you may have taken on.

Chris Sellers: Absolutely right. The priorities are very clear.

Q14 Stephen Metcalfe: So whether or not you would require compensation for switching more resources to supporting Government is not an issue.

Chris Sellers: It is already dealt with.

Q15 Stephen Metcalfe: From our point of view, we are obviously worried about how Government will use these services. As much as you can, I think you have said that the emergency response will be as robust, if not more robust, than it is now because it will be protected.

Chris Sellers: That is right.

Q16 Stephen Metcalfe: And that we should have nothing to worry about from this.

Chris Sellers: Absolutely right.

Q17 Graham Stringer: You have already answered a number of the questions that I was going to ask. Can you tell me what the institute will do that FERA does not do at the present time?

Professor Edwards: FERA's skills are very complementary to those of Agriculture, Food and Rural Development at Newcastle. For example, FERA has a capacity in plant health, whereas we have a school of agriculture, and the two are very closely aligned with one another, but the statutory services of FERA are currently largely directed at non-agricultural produce. There is a real match between what we are trying to do in agriculture and what FERA is doing in plant health. Similarly, on the food side, FERA's expertise lies in food safety, and at Newcastle we have expertise in nutrition. Again, they are the two sides of a coin. I can see that there is a very good capability match between the two organisations, and it strengthens translational science, which is what we are really interested in—taking basic science all the way through to innovation and new product development across the agri-food chain.

Q18 Graham Stringer: I understand that; it is very similar to the first answer that was given. But what will the institute be doing extra? That is what I am trying to get at.

Dr Heard: One of the things that we think the institute will uniquely bring is to enable FERA scientists to have access to forms of science funding that otherwise they would not be eligible for, so they will be able to access research council funding, for example, through the institute which otherwise they would not be able to do, which will mean that FERA's science capability can grow as it takes advantage of that. It is not just research councils. You have Innovate UK and EU funding as well, some of which FERA is already able to access, but in combination with Newcastle University their combined efforts will make them better able, in certain circumstances, to be successful in bidding for EU money.

Q19 Graham Stringer: Forgive me for being suspicious, but is the driver primarily that you can get access to more funding streams more easily, or is it to extend the science base?

Professor Edwards: Research council funding helps to build the research capability in FERA. It is much more directed at basic science and basic skills, so it underpins the capability of the future of FERA. There is also an element of joint training of postgraduate students, to help, effectively, refresh the skills base within FERA as well. There is a bit of a double advantage about getting closer to the world of research councils and the world of basic research.

Q20 Graham Stringer: What are the governance arrangements going to be? Are the Government going to be involved in the controlling structures?

Dr Heard: Are you referring specifically to the governance of the institute or of the joint venture?

Q21 Graham Stringer: The institute.

Dr Heard: The institute will be governed by a board which will have equal numbers of members from the joint venture and from Newcastle University. Given that DEFRA will be a partner in the joint venture, they will be able to feed into the governance of the institute through that.

Q22 Graham Stringer: Will they have a person represented on the board?

Dr Heard: The board will be made up of Newcastle University and FERA staff. In so far as FERA staff report to both Capita and DEFRA via the joint venture Board, that is the route they will have.

Q23 Graham Stringer: Is that a long way of saying no?

Chris Sellers: The formal board membership has to be between the joint venture and Newcastle University for the institute. If it happens that the best person from the joint

venture is a Government employee—it might be Professor Ian Boyd, for example—he could sit on it as well. There are no restrictions on this being someone from Government. They will be representing the joint venture.

Q24 Graham Stringer: But nor is there any constitutional position that says that the Government must be represented on the board.

Chris Sellers: They are in the sense that the joint venture is represented on the board and they are part of the joint venture.

Q25 Graham Stringer: I think I understand. Can we move on to the finance? You said earlier that Newcastle University were putting in £4.5 million. In the announcement to the London stock exchange, Capita said that they would be purchasing 75% of FERA for £20 million, yet the Government talked about £14.5 million of additional funding. Can you explain those figures to me?

Chris Sellers: Yes, I can explain the figures. Absolutely. The £20 million is a payment from Capita to DEFRA for the purchase of 75% of the joint venture. The £14.5 million investment in FERA and the institute is £4.5 million from Newcastle University and a further £10 million from Capita, so that is the 14.5.

Q26 Graham Stringer: Will the partnership continue to undertake routine scientific work that is in the public interest but in all probability—one can never judge what will happen when you are doing research, and I understand that—will not be profitable?

Dr Heard: The long-term service agreement between the joint venture and DEFRA, as a customer, protects a whole range of services that FERA currently provides to the Government. They are already costed into that agreement. The services that FERA currently provides are protected under that agreement.

Q27 Chair: Is that list of services in the public domain? If not, why not?

Chris Sellers: I don't know whether it is, because it is still prior to contract signature. I can check that and come back to you.

Q28 Graham Stringer: Will it be when the contracts are signed?

Chris Sellers: As far as I am concerned, it will be.

Q29 Graham Stringer: This is my final question. Do you anticipate that non-commercial public interest work will be charged at a higher rate than it is at the present time?

Chris Sellers: The actual service agreements that we are committing to right now protect pricing for Government.

Q30 Graham Stringer: So there will be no change in the pricing structure.

Chris Sellers: In fact, there is a 20% reduction in fees for the services already committed, so there are savings to DEFRA beyond the investment that we are making, which are committed, even though we are protecting the services that they have.

Q31 Stephen Metcalfe: If I could, I would like to turn a little bit to what is probably the most important part of the business, which will be the staff, whatever their role. Everyone is concerned about change. Change is unsettling for all. At the start of this new venture, what should the employees expect? Are they leaving one organisation and joining a new one? Are they transferring? What are the arrangements for them?

Chris Sellers: The staff will transfer to Capita as part of this arrangement. We have talked to all the staff about that, and we are working with Prospect on site, and have been for the last two weeks since the announcement, to talk through all of that. When we talked to staff, when we managed to get them all assembled two weeks ago, which could only happen post-preferred bidder announcement, the messages were clear—that we are investing in the science, that the number of science jobs will grow, and that we are planning on an extra 50 jobs at Sand Hutton. We have been very open about that. That is part of the plan submitted to DEFRA. We have also been very clear that there are elements of the back-office support services at FERA which, frankly, have been underinvested in for the last few years. There is not a robust finance system. There is not a robust project management system, and in fact there is no customer relationship management-type capability, which, for a science organisation that is managing a large number of different customers, hinders the science and the application of that science. We will be making those investments in the first 12 months. It is possible that from that—we have been very open about it—there are certain back-office roles which will not be required in the same way, but that is being worked through with Prospect.

Q32 Stephen Metcalfe: Is “not be required in the same way” indicating that those roles will be removed and different people will be brought in, or will existing staff be able to transfer into roles? I think you are saying that you need to improve the back office.

Chris Sellers: We do.

Q33 Stephen Metcalfe: Are you also saying, at the same time, that there may overall be a smaller headcount?

Chris Sellers: There may well be a smaller headcount—that is possible—in the back office, but we expect the staff there absolutely to be able to do the roles that will remain.

Q34 Stephen Metcalfe: You were very clear about the science function, that there will be an extra 50, but we cannot really say at the moment what the headcount in the back office will be in 12 months' time.

Chris Sellers: I cannot say that.

Q35 Stephen Metcalfe: Are there other areas where you will be trying to make efficiency savings?

Chris Sellers: There are not, to be quite honest, because the plans are all about growth. This is all about attracting new work, part of which is up-front investment from us to pump-prime all of that. The whole point of this is that the whole business hinges on great science and the areas of competence that FERA continue to develop, because that is what gives you differentiation in the marketplace.

Q36 Stephen Metcalfe: And that market is pretty robust at the moment, so there is plenty of work for you to go out and find.

Chris Sellers: It is not only robust; it is growing fast. If you think about the challenges of rising population and climate change, that is exactly where FERA play. Our excitement about this is that at the moment they could play on a bigger stage than they do today.

Q37 Stephen Metcalfe: Is that just within the UK or do you see yourself having a role internationally?

Chris Sellers: No. This is definitely an international role.

Q38 Stephen Metcalfe: If it is an international role, is there anything in the joint service agreements that means you have to keep the research facilities in the UK, or can you move them wherever you choose?

Chris Sellers: We have been very clear that Sand Hutton is where we are going to concentrate and base this. It is a very simple fact. As much as anything, it is a business decision, like any decision, because the business relies on those people. Those people have lived there for 20 years since they relocated from CSL, and that is where the heart of it is. With York University and the science park there as well, and Newcastle not too far up the road, we are getting a great cluster in that area of the country of really good agri-tech scientists, which is fantastic. That is what makes the business.

Q39 Stephen Metcalfe: Obviously, you sound very excited about this.

Chris Sellers: We are.

Q40 Stephen Metcalfe: I can see that. Is that excitement shared across the whole organisation, if you are honest? Everyone sees this as something bright and new.

Chris Sellers: Absolutely, yes.

Q41 Jim Dowd: While we have the people from Capita here, because they will not be with us during the second panel, do you know how the chief executive of FERA was selected?

Chris Sellers: The chief executive of FERA will be the existing chief executive of FERA, who is Hilary Aldridge.

Q42 Jim Dowd: It is indeed Hilary Aldridge. Capita, as I recall, was founded by a Mr Rod Aldridge. Is there any connection?

Chris Sellers: There is no connection that I am aware of at all, and that decision was made by DEFRA, way ahead of this.

Jim Dowd: Thanks very much.

Q43 Stephen Mosley: One point of clarification. When you are talking about the employees moving over, you said that they would be Capita employees. Will they be Capita employees or will they be employees of the new joint venture?

Chris Sellers: They will be Capita employees but they retain all the terms and conditions that they currently hold.

Q44 Stephen Mosley: In the event of any back-office job losses, would there be opportunities to transfer within Capita?

Chris Sellers: Absolutely right. We employ the best part of 11,000 people in that area. We have already, again, made a commitment that any opportunities at any of our other sites around there will be open for any FERA employees, if they so wish, but our primary focus is getting FERA on.

Q45 Graham Stringer: You have put forward a very positive view of these changes. When you were discussing, debating and deciding to go this way, can you tell us what you thought were the threats and the downsides?

Chris Sellers: The threats and the downsides to me were whether we could win the hearts and minds of the scientists, because without the scientists and without investment in future science this does not stack up. A lot of our research was around gaining insight around the passionate commitment of the scientists. Having met them, having interacted with them and having understood some of the constraints they now feel that we can take away as part of this joint venture, we have no concerns around that any more at all.

Q46 Chair: And that view is also held in the university, I take it.

Professor Edwards: Yes. From the perspective of the university link, it is a really important one for the staff at FERA because they see that, again, as a strengthening of the science and the investment going forward—basically, expanding the science operation as opposed to contracting it.

Chair: Gentlemen, thank you very much, indeed. It has been really interesting.

Examination of Witness

Witness: **Lord de Mauley**, Parliamentary Under-Secretary of State for Natural Environment and Science, Department for Environment, Food and Rural Affairs, gave evidence.

Q47 Chair: Lord de Mauley, thank you very much for joining us again, I think for the last time in this Parliament, but you never know.

This is an interesting development, and I think you heard me say that our principal interest is to ensure that UK science is properly protected in this deal. First, can I test the water, as I did with the first panel? In the ministerial statement of 11 February, it says: “It is intended that the new joint venture will commence on 1 April.” Do you think that that is now a certainty?

Lord de Mauley: It is certainly our firm intention. If anything, it is looking more likely rather than less likely, but of course, as your previous witnesses indicated, nothing is certain until it is certain.

Q48 Chair: In the ministerial statement, there was a reference to freeing FERA from public sector constraints. Most members of this Committee will understand what is meant by that phrase, but perhaps, for the record, you could explain what you think it means.

Lord de Mauley: Yes, of course. Those constraints include three things. One is the ability to market your services proactively. Another is to pay your staff at the market rate, and a third is to finance your business, for example, through borrowings, which is obviously that much more difficult in the public sector. The fourth thing, which your previous witnesses mentioned, is access to research council funding, in this specific instance.

Q49 Chair: And any such borrowing, presumably, would be outside the PSBR.

Lord de Mauley: Correct.

Q50 Chair: Leaving aside aspects like that—obviously, the Treasury have a close interest in points like my last one—what are the problems with the current model?

Lord de Mauley: FERA has a turnover of about £40 million, and it has about 550 staff. Income from public bodies in 2013-14 represented about 66% of that, with 18% coming from commercial customers. FERA's revenue from the UK Government is expected to fall over the next few years, largely from ongoing pressures on departmental budgets. A business review in 2011 highlighted FERA's success in growing commercial income and noted that there was potential to grow it. Also, at the same time, we were moving into a situation where FERA was loss-making, and under Government ownership it was difficult to see it finding its way out of that situation.

Q51 Chair: In the Government's statement, there is the laudable goal that the new joint venture would "protect and enhance" FERA's science capabilities, and we all applaud that, but where is the evidence? How is that going to be achieved?

Lord de Mauley: We share your imperative that we should protect and enhance Government science. We are doing it in three ways: first, by choosing the right partner; secondly, by ourselves remaining a part owner; and, thirdly, in the science we pay for as a customer of FERA. First of all, in terms of choosing the right partner, we have used a comprehensive procurement exercise, which I can explain to you, if you wish, to find a partner with a science strategy aligned with the high standards and reputation of FERA's scientific capability and our ambition for its science. Our ambition is for it to provide innovative, relevant and high-quality science to help meet our fundamental need for sustainable, long-term access to innovative science, so we asked each bidder for its science strategy for FERA, and we evaluated this on its alignment with our ambition. Capita's bid scored highly, in particular because of its proposal, which you have heard about, for a joint research institute with Newcastle, which is part of the Russell Group, and currently ranked fifth in the country for the number of knowledge transfer partnerships.

Moving on to remaining ourselves a part owner, as a minority shareholder, we clearly will be at arm's length to allow the joint venture the freedom to act commercially, but we will still have influence through our 25% holding and, importantly, through our two directors on the board, who will be our chief scientific adviser, Professor Ian Boyd, and our director-general responsible for animal and plant health, Nick Joicey. They will have a role in providing support and challenge around the science strategy, and thus the science direction in the joint venture. The third thing, specifying what we need as a customer, is that we can protect our interests by specifying and paying for the science and science capability we need through the long-term service agreement, and ensuring we get what we want through proper contract management.

Q52 Chair: The board to which you referred is the joint venture board, is it?

Lord de Mauley: Yes.

Q53 Chair: We will come back later to explore more about the institution. It has been a long process. Originally, the Government announced that it was all supposed to be sewn up by the end of last year. What are the reasons for the delays?

Lord de Mauley: It has been important to get it right. We have gone through an extensive pre-procurement exercise, which I referred to earlier. From my experience in the private sector, where my business for 20 years was doing these sorts of deals, I have to say that I was very satisfied that it was very professionally and thoroughly done. I am sure you would make the point to me that we should not rush these things. In the circumstances, it has been very professionally done and I am very satisfied with the result.

Q54 Stephen Metcalfe: This Committee has previously expressed concerns about the way the Forensic Science Service was—for want of a better description—disposed of, and although we were led to believe that there was some strategy behind that, when we scratched the surface a little bit more and dug a little bit deeper, we discovered that there really was not. Although you have said there is a strategy, can you expand on what it is in terms of the regulation, innovation and commercialisation of FERA that will make sure that we are not in a tricky place in a year, or in two years' time?

Lord de Mauley: I absolutely understand the concern, and it might help if I explain how we used the experience we gained from previous deals in steering ourselves through this course. You mentioned the Forensic Science Service, quite rightly. We were, of course, conscious of the failure of that, where concerns were raised about the maturity of the forensic market and the Forensic Science Service moved to a GovCo. Perhaps the difference is that FERA already operates in a commercial marketplace so it can take advantage of the greater commercial opportunities from a joint venture. There were others that we looked at, like the National Physical Laboratory, which was a Government-owned, contractor-operated model, and then its recent move to a new partnership arrangement with two universities, Strathclyde and Surrey. That helped us think through how to put the quality and sustainability of the science at the heart of the deal. We were also conscious of the conclusions of the NAO inquiry into the QinetiQ privatisation. Reflecting that, the management of FERA were kept at a distance from the proposition and negotiations. We included a super-profits clause to take a cut back for Government if the joint venture became successful. There were a number of other situations which we took into account when steering ourselves through these negotiations. We have done that extremely carefully.

Q55 Stephen Metcalfe: One of our concerns around the way the Forensic Science Service was dealt with was the lack of involvement of the chief scientific adviser, it is fair to say, almost all the way through the process. Can you reassure the Committee that the science—research is in the name of the organisation—was at the heart and centre of this, and that the chief scientific adviser was involved all the way through?

Lord de Mauley: I absolutely can. He and I talk regularly about a whole range of DEFRA matters, as you can imagine, including FERA. He and I have been up there several times, and we have both been kept thoroughly involved in the process.

Q56 Stephen Metcalfe: Thank you very much. If I can, I would like to move on to the area of ensuring that the Government still maintain the benefits of FERA. We heard from the first panel that there is a service level agreement between the two sides. Are you confident that the Government's requirements will always be met, above all else?

Lord de Mauley: Yes, I am. It is important to say that there is a clear and comprehensive contractual process to address any issues of poor delivery. One has to think of the worst and plan for that. First of all, there is a series of regular meetings which go on at a senior level to monitor progress. If a problem arises, it will initially be handled at the level of the service recipient—plant health, veterinary, medical directorate or wherever. If a failure is identified, financial consequences can kick in quite quickly. Both sides will do their best to fix the failure. Three successive failures will trigger an urgent meeting within a week of the third failure. I am going into a lot of detail, but I hope it is helpful for you to understand the consequences. Things can be escalated further, including an emergency meeting which involves looking for a rectification plan and is triggered by a series of breaches. Ultimately, the call-off in question can be terminated and, even in extremis, the framework. The core capability in the joint venture, which DEFRA is committed to fund, would, in those circumstances, ultimately return to Government, ensuring that vital skills would not be lost.

Q57 Stephen Metcalfe: That is if there is a breakdown in the relationship and the new organisation is not providing ongoing services in the way you want. What happens in an emergency? If you suddenly need all those resources directed in one particular area, how will you make sure that DEFRA's requirements are met above all else?

Lord de Mauley: Responding to incidents and emergencies will continue to be of the utmost importance, and Capita completely understands that. They understand their responsibilities and we are contractually assured that, as now, work to deal with emerging issues will be given the highest priority. In the short term, they will comply with our existing contingency and emergency requirements, and they are required to maintain short notice capacity. They are working on a new contingency plan, which will be more encompassing, and we are working with them. That will be required to be in place within 90 days of when the contract takes effect. It will set out the response we expect within the new contractual relationship. We also have a critical performance indicator covering incidents and emergencies, failure of which leads to significant financial reimbursement and triggers additional performance monitoring.

Q58 Stephen Metcalfe: Does it anywhere in the contract actually stipulate, categorically, that Government work needs to take priority over other commercial clients?

Lord de Mauley: Essentially, yes, because it is done in the way that I have described, which says that those are absolutely to be treated as—there can be no failure.

Q59 Stephen Metcalfe: Yes. They are slightly different. I completely agree, but it does not actually stipulate, “We will let everything else down before we let you down.”

Lord de Mauley: I think that is the effect of it. Our intention in the negotiations has been, essentially, that that situation pertains.

Q60 Stephen Metcalfe: You are confident, and your advisers are confident, that that is the case.

Lord de Mauley: I am very confident that they will not let us down.

Q61 Stephen Metcalfe: Good. Thank you for that. As I said to the previous panel, the biggest asset the new organisation will have is its staff. Obviously, everyone finds change unsettling. Since the announcement, has FERA had problems with recruiting and retaining staff?

Lord de Mauley: The staff have been kept thoroughly informed throughout the process. Indeed, compared with a private sector process, which I am more familiar with, this has been one of the more open ones I have encountered. Indeed, staff have reacted extremely positively. I do not have an up-to-the-minute answer to the question you are asking, but I am not aware of any problems.

Q62 Stephen Metcalfe: You are not aware.

Lord de Mauley: No.

Q63 Stephen Metcalfe: You have not, therefore, taken any steps to prevent the loss of skilled and experienced staff, because you are not aware that there has been a problem with that.

Lord de Mauley: The impression we get is that, if anything, it is in the positive direction.

Q64 Stephen Metcalfe: Because of the announcement and the excitement around the potential.

Lord de Mauley: It has become a more attractive place.

Q65 Stephen Metcalfe: Okay. That is good. Let's hope that there is this bright future for the new organisation. I am sure we all wish that. I am not trying to sound sarcastic in any way.

We heard from the first panel, and you heard it too, that there will be some changes in the back-office function. Have those changes and the potential reduction in headcount been discussed up front? Does it form part of the negotiations that there will be a reduction in staff?

Lord de Mauley: Nothing has been withheld, but it is quite early days for Capita to decide exactly what they are going to do. Inevitably, they are going to look to restructure the business so that they can meet their new business plan. In particular, they will be looking to enhance operational efficiency through implementation of new and improved business support systems. One can expect this to have an impact on back-office jobs, although they are committed to no job losses in the first six months, to give them time to really get a feel for the business.

Q66 Stephen Metcalfe: Is that not stipulated by the TUPE agreement as well?

Lord de Mauley: Everybody is subject to TUPE, of course; yes.

Q67 Stephen Metcalfe: I think that the six months is part of any TUPE agreement. As I said, we want this to work, but, in the event that it does not, do you have contingency plans in place through the contract to bring all scientists and other staff back into and under Government control?

Lord de Mauley: Those who are necessary to perform whichever function it is, yes.

Q68 Pamela Nash: Good morning, Minister. I would like to ask you a couple of questions about the processes that were in place for the Department to choose partners for FERA in the future. Can you share with us the criteria that were applied to the applicants, and can you tell us more about who was involved within the Department for determining those criteria and going through the application process?

Lord de Mauley: Can I run through the procurement procedure? I think it might be helpful to the Committee. The procurement for the joint venture was an undertaking using the negotiated tendering procedure, and a notice was placed in the *Official Journal of the European Union* on 4 May 2014. Forty-three organisations expressed an interest, of which 15 attended meetings with DEFRA as part of a market soundings exercise. Six bidders completed a pre-qualification questionnaire, and four of them went through to the pre-qualification stage. The deadline for bidder responses was midday on 5 December. Bidder responses received were opened on 5 December, and these were checked for compliance and the clarifications required to enable them to be evaluated. Throughout the process, all the bidders have been treated equally and have been given the same opportunities to learn about the FERA business and tailor their bid appropriately. There were bidder days when they were all given an equal chance to meet the FERA executive team. There were

negotiation sessions. There was access to a common data room of information. The tenders were evaluated by an independent panel, all of whom had signed a non-disclosure agreement and confirmed that they did not have conflicts of interest. The evaluation process was undertaken in a completely fair and transparent way. Ultimately, that independent panel scored Capita with Newcastle University highest.

Q69 Pamela Nash: On what criteria?

Lord de Mauley: The criteria would have been science, first and foremost, including ability to fulfil all our requirements, financial, and then a range of other business criteria. I guess those were the two key ones.

Q70 Pamela Nash: Is there a formal list of criteria?

Lord de Mauley: I can certainly let you have it. I haven't got it here. I have given you the process that we went through. I will let you have that afterwards, if I may.

Q71 Pamela Nash: Yes; thank you. Was the Department's chief scientific adviser involved in that process?

Lord de Mauley: Yes, he was. His deputy was on the panel. You were asking specifically who was on the independent panel.

Q72 Pamela Nash: His deputy was, but the chief scientific adviser would be—

Lord de Mauley: He would be kept closely informed.

Q73 Pamela Nash: You mentioned that the science ability would have been in the top criteria that were used. Can you share with us any information and evidence that Capita presented in the application process to show their capability in providing science services?

Lord de Mauley: Yes. I have described a bit about the process that was gone through. What was really important to us, and the reason why their bid scored particularly well, was the proposal for a joint research institute with Newcastle University. This will help to ensure the quality of FERA's science by rooting the organisation in the UK research base; you heard a bit about that from the previous witnesses. The criteria we set were heavily weighted towards protection of our science, and meeting our service requirements. I can now tell you that the key criteria were financial, science and service quality—that is the one I should have added.

Q74 Pamela Nash: You mentioned in an earlier answer applicants having to sign a non-disclosure agreement at a certain stage in the process. Why was that felt necessary?

Lord de Mauley: I think I said that—I mean—

Q75 Pamela Nash: It is my understanding that applicants had to sign that agreement before they were allowed to view the initial information document. Is that normal practice in DEFRA?

Lord de Mauley: Yes. Absolutely, it is.

Q76 Pamela Nash: So there is a precedent for that to happen.

Lord de Mauley: In this case, it gives DEFRA, the Government, more control over the process if we bind them to a confidentiality obligation.

Q77 Pamela Nash: Could you expand on that for me? Why is that?

Lord de Mauley: First of all, there is some intellectual property which FERA owns, and we do not want to give away our commercial secrets, so it would be entirely inappropriate for them to do that. That is just an example.

Q78 Pamela Nash: Are there any other reasons?

Lord de Mauley: When you are conducting a negotiation, you want to be in control of the process. To the extent that people are permitted to talk to each other outwith that, it can prejudice that process.

Q79 Graham Stringer: I will not repeat the question, but you were present when I asked the previous witnesses to explain the financial arrangements, the £20 million, made up of the £14.5 million and the £4.5 million. Were you happy with their answers? Did you agree with that, and is there anything you want to add?

Lord de Mauley: No. I was happy with their answers.

Q80 Graham Stringer: The Government have said that they estimate that they are committed to £15 million in the first year of the joint venture. Is that still the case?

Lord de Mauley: On the services of the business.

Graham Stringer: Yes. And that remains the case.

Lord de Mauley: Yes.

Q81 Graham Stringer: How far into the future do you project that financial commitment?

Lord de Mauley: From memory, I think we are committed for five years.

Q82 Graham Stringer: Is that £15 million in cash terms or real terms?

Lord de Mauley: It declines over the five years. That is pre-agreed.

Q83 Graham Stringer: If you do not have it in front of you, do you think you could send the Committee a note on that?

Lord de Mauley: Of course I can.

Q84 Graham Stringer: Can you outline to the Committee how DEFRA's funding commitment to FERA will change over the course of the contract with Capita?

Lord de Mauley: Could I include that in the answer to you?

Q85 Graham Stringer: Certainly. With more difficulty really, we saw that things, because of the market change, went wrong with forensic science. What happens if there is a funding shortfall, if the budgets don't go according to plan? Whose responsibility is it to plug that gap?

Lord de Mauley: Do you mean Government funding?

Graham Stringer: No. If the financial plans of the institute and the joint venture don't work, because the world changes often, whose responsibility would it be to plug any gap?

Lord de Mauley: It would be Capita's responsibility. It would be up to them as to whether they could do it from within the joint venture. If not, they would be required to do so themselves. I have explained to you the escalation procedure for when things go wrong. First of all, there are financial penalties in there and ultimately, if push comes to shove, the function has to be brought back into Government. In answer to Mr Metcalfe earlier, I explained the process for bringing staff back into Government. I should clarify that they would be specific to plant health—the staff who would come back.

Q86 Graham Stringer: Finally—this is the same question I asked the previous panel—when the Government were discussing these proposals, what did you see as the biggest

potential risks and downsides? In a Committee like this, we are bound to hear the positive case. What were the worries?

Lord de Mauley: That was one of the things foremost in our mind, which is why, for example, we looked at other similar Government transactions that had not gone well and we asked ourselves why. We have written into the contract ways to obviate those. The contract is very clear that Government science is protected. The bigger question is whether the commercial upside is realised. I have explained that FERA is already getting 18% of its revenue from the commercial world. We and Capita are convinced that that is a growth market, so we think the risks are on the upside there. All I can do is assure you that we have spent this time—the Chair mentioned that it has taken a bit longer—making sure that we have dotted as many i's and crossed as many t's in contractual terms as we possibly can.

Q87 Stephen Metcalfe: I just want to go back to the issue of the staff transferring back into DEFRA if necessary. You have now qualified your remarks by saying that it is the plant health staff.

Lord de Mauley: Yes.

Q88 Stephen Metcalfe: What about the others, such as animal health and those sorts of areas?

Lord de Mauley: Other services can be sought elsewhere in the market. Our view is that it is plant health where the services are more unique.

Q89 Stephen Metcalfe: If it were all to go wrong—you always have to plan for the worst case scenario—and it went wrong at the same time as there was another outbreak of something like foot and mouth, you could go out and buy those services.

Lord de Mauley: To some extent I think you can, but I am confident that we will be able to do it from within the joint venture.

Q90 Stephen Metcalfe: Okay. As I say, you have to plan for the worst; that is why they are called worst case scenarios and we have the national risk register and things.

Lord de Mauley: If I may, may I consider that point and write you a note?

Stephen Metcalfe: Okay. That is fine.

Q91 Jim Dowd: Good morning, Minister. I would like to look at R and D for a moment. It is difficult to define from the latest annual report precisely what percentage of FERA's income is actually spent on R and D at the moment. Do you have any idea? Information is arriving.

Lord de Mauley: But not on that particular question. I won't make a guess. I will write to you on that particular point.

Q92 Jim Dowd: Fine. That may well affect my second question. How will this proportion, whatever it may be, be affected by the joint venture?

Lord de Mauley: As well as providing commitments to a number of specified services, we, DEFRA, have also committed to commission a minimum level of R and D per annum as part of the service requirement, which starts at £1.5 million in year one, and is focused on delivering new science for DEFRA's policies, and underpinning and improving other services. In addition, FERA can bid for additional funding from DEFRA and other sources. Maintaining a level of competition for R and D funding is, as you have identified, important to ensure that we continue to receive the best solutions.

Q93 Jim Dowd: But without knowing the first figure, of course, you don't know whether that is more or less than is currently being spent, do you?

Lord de Mauley: I think I am going to have to write to you.

Q94 Jim Dowd: Okay. I'll look forward to that. What steps is the Department taking to ensure that Capita continues to invest in R and D and maintain FERA's research capabilities?

Lord de Mauley: In addition to the joint venture itself, which I have just described but which we will come back to, the joint research institute is perhaps the entity that is most exciting from that point of view; it is a new creation and will do more blue sky research than has been done until now. That indicates to me that there will be more research rather than less research going on.

Q95 Jim Dowd: Let's hope that is the case. The object of the exercise is obviously to undertake research, but there is nothing in the contract, in the agreement—or is there?—which compels Capita and FERA to ensure that it remains in the UK. What is to stop them, for example, closing research facilities in the UK and obtaining the same from overseas?

Lord de Mauley: You heard the conviction of the previous witnesses that FERA would form the nucleus for an agricultural science community in the north country, and I think that is a very compelling story. We have some of the best scientists in the world. They are here. Capita is coming here because we are here. They are not going to another part of the world, chasing their scientists. That is what makes me confident that they will stay here.

Q96 Jim Dowd: That may well be the practicality of it. Let us hope that is indeed the achievement, but there is nothing in the contract which says that the R and D has to take place in the UK, is there?

Lord de Mauley: There is, I understand, a specific restriction on offshoring scientific capability in the contract, yes.

Q97 Jim Dowd: Okay. Perhaps, along with the other notes that you are sending us, you could detail exactly what the position is.

Lord de Mauley: Of course, I will.

Q98 Graham Stringer: This is the same question I asked the previous panel, but I would be interested in your response. What will the institute do that FERA currently does not do?

Lord de Mauley: At the moment, most of FERA's research is applied. What the institute will be doing is the blue sky research—the more basic research. I cannot tell you exactly what they will do. By the nature of blue sky science, I guess that will pan out when they set the institute up.

Q99 Graham Stringer: But you expect more blue sky.

Lord de Mauley: Yes, I do.

Q100 Graham Stringer: Whose idea was the institute? Where did the impetus come from for it? Was it Government, was it Capita, or was it Newcastle University?

Lord de Mauley: My understanding is that it arose out of the discussions between Capita and Newcastle.

Q101 Graham Stringer: So it was not a Government initiative in that sense.

Lord de Mauley: No.

Q102 Graham Stringer: Do you think the new institute will take research away from FERA and DEFRA, or will there be enhanced research? Will the totality be greater than the parts?

Lord de Mauley: Certainly the direction of travel, in terms of the relationship, is that it will be done on site. There will be interaction between the scientists and it will have an extremely positive effect.

Q103 Graham Stringer: Again, you heard the discussions with the previous panel about the governance arrangements. Do you think that the Government should have a direct appointee on the board that runs the institute rather than it being a secondary relationship?

Lord de Mauley: What was important to us was that we had directors on the board of the joint venture, which, after all, is the bit that is providing the services to us. The institute is the bit that will be doing the basic research, as I said. It will belong to the joint venture. We felt that was the appropriate structure.

Q104 Graham Stringer: Organisations, when they have their own boards, can sometimes do very good things and poor things, but you don't think that the Government should have a direct representative there. If you follow the public money through, there is public money in there, isn't there? Do you not think that there should be a Government representative on that board?

Lord de Mauley: As I say, what is really important to me is that we have representation on the board of the joint venture, which is providing the services directly to us—the emergency response, the plant health and so on. The joint venture will control the joint research institute. We felt that that was an adequate, proper and appropriate level of oversight.

Q105 Stephen Mosley: Currently, FERA has an external science panel and it also makes use of DEFRA's chief scientific adviser to provide both independent challenge and advice on the scientific activities of FERA. Where will this independent challenge come from under the new structures?

Lord de Mauley: The chief scientific adviser will be on the board, and he will provide that oversight.

Q106 Stephen Mosley: Currently, there is an external science panel and it is made up of quite a wide range of people. Will that still be in place under the new structure?

Lord de Mauley: Yes, it will.

Q107 Stephen Mosley: Within the contract, what sort of performance indicators are there that specify the terms of the scientific research and development that occurs?

Lord de Mauley: Can I add that to my letter? It is a point of some detail and I think it is important.

Stephen Mosley: Okay.

Graham Stringer: It will be a very long letter.

Q108 Stephen Mosley: How will that be measured and who will have the role of overseeing it? Will it be an internal figure or would it be DEFRA?

Lord de Mauley: It will certainly be DEFRA. It is quite a complicated range of performance indicators. Rather than me telling you at length, it is important that I set it out in writing.

Q109 Stephen Mosley: Thank you; that will be appreciated. Moving one step away from the specifics of those indicators, who will be measuring them and what will happen if they fail to meet those indicators?

Lord de Mauley: I am sorry, Mr Mosley, but I don't think you were here when I went through how, if there are problems, they are escalated. Initially, it is handled at the level of the recipient of the service. If things go wrong, it is escalated. There are several levels of escalation, which mean that ultimately, if everything goes badly wrong, the service can either be pulled back into the Department in the case of plant health, or they lose the business.

Q110 Stephen Mosley: In 2014, the Public Accounts Committee recommended that the National Audit Office should have access to the information associated with public sector contracts to facilitate parliamentary scrutiny of private sector provision. Has DEFRA followed those recommendations?

Lord de Mauley: Yes. Of course they are involved in the process. They will see the final contract.

Q111 Chair: Lord de Mauley, there is quite a lot to follow up from this. The number of sitting days we have left are very few in this Parliament, and it would be helpful if you could ask your officials to scribble away as soon as possible and get information to us on the outstanding points, because we need to reflect on this within a week or so. Thank you very much for your attendance this morning.

Lord de Mauley: Thank you, Chair. We will start today.