Public Accounts Committee

Oral evidence: Managing and replacing the Aspire contract—recall, HC 1122

Monday 16 March 2015

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb; Meg Hillier; Dame Anne McGuire; Austin Mitchell.

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Executive Leader, Rob Prideaux, Director, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Bill Crothers, Government Chief Commercial Officer, Cabinet Office; Mark Dearnley, Chief Digital and Information Officer, HMRC; and Lin Homer, Permanent Secretary, HMRC, gave evidence.

Chair: We have two hearings this afternoon, so they are going to be tight—we hope. Our recall hearing is at the end of this Parliament. We are going to start on the Aspire contract. Richard will lead for the rest, if that is all right with you.

Q1 Mr Bacon: Thank you. I hope this will be relatively brief and that we can move on to other things and not detain you too long.

This is a matter of huge interest to us. I think I am right in saying—correct me if I am wrong—that this is now the largest technology contract in Government, isn't it?

Bill Crothers: I have heard that claim.

Q2 Mr Bacon: And I have heard it said that it is the largest technology contract in the UK. Is that right?

Chair: Or even further.

Bill Crothers: We think it is one of the largest in civil IT in Europe. I do not think I can say definitively, but it is one of the largest.

Q3 Mr Bacon: Indeed. And of course "civilian" immediately calls to mind the national programme for IT in the health service, which was the largest civilian IT project in the world. So when I read a phrase like, "We are making significant progress in preparing for a smooth and effective transition"—I am afraid this is regardless of the content and substance of what has and has not happened—I am instantly reminded of many assuring words that came out of the national programme for IT in the health service. I look at all such sentences with enormous scepticism. I am afraid that is now the lens through which we look at these things, regardless of the truth of the matter. So I hope you will bear with us and accept that it is scepticism, not cynicism. We do want this to go well and we want to know what is happening, to be sure that it is going as it should do.

Mr Dearnley, you said last time we saw you: "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"—this was in late October 2014—"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"—the Treasury. "We expect to be talking publicly about it early in the new year". It is nearly Easter and I think I am right in saying that you are getting quite close, although slightly later than you originally said then, to being in a position to talk about it. Is that right? Is the business case nearly signed off?

Mark Dearnley: It is correct the business case was submitted as planned just before Christmas into Cabinet Office and HMT and has since then been through a rigorous approval process. We have had a project assessment review, two major programme review group reviews, a critical friend review, and we now have approval from major programme review group to proceed to the next phase.

Q4 Mr Bacon: Which is?

Mark Dearnley: Which is to get us through to the summer, into the next decisions to be made.

Mr Bacon: Through the summer? So now it will be summer before decisions are made.

Mark Dearnley: We made decisions to take us to the next phase. Like any programme, it has a gated set of phases. So this phase takes us out of the design phase and into starting the execution phase.

Q5 Mr Bacon: But you said, "We expect to be talking publicly about it early in the new year", which in reasonable parlance one would think of as late January or early February. We were to have had a hearing on this a few weeks ago, but it got pushed back because you were not in a position to talk about it. I presume there are commercial negotiations going on still. When will the business case be signed off?

Mark Dearnley: As far as the business case goes, it is signed off by the MPRG and MCO. We are just waiting for the Chancellor to sign it off.

Q6 Mr Bacon: So it is not signed off by the Treasury—that is the point.

Mark Dearnley: It is signed off through MPRG, which includes the Treasury—it is jointly chaired by them. We are just waiting for the Chancellor's sign-off.

Q7 Mr Bacon: Yes, but it has to go through all of that before it goes for a spending decision—no?

Lin Homer: No. We ask the centre if, in a sense, they will go through the official process in a joined-up way and present the official view from Cabinet Office and Treasury to Ministers. We have done all of that and, indeed, the MCO has looked at that and come back and said that he is content.

Q8 Mr Bacon: So the Minister for the Cabinet Office has signed it off.

Lin Homer: Yes. We are also in a position where—

Q9 Chair: Why can't we talk about it publicly, then?

Lin Homer: Because we are still in negotiations. So having a business case and a view that you have got to do something ideally needs to translate into binding arrangements that will take you forward.

Q10 Mr Bacon: How long is that likely to take?

Lin Homer: Since our proposition is that we will do this in phases, which we think is a significant part of the de-risking, I suspect there will be several chunks at this and we think that those will start to happen in terms of legally binding agreements as we go forwards. In relation to the remaining gap, we have talked with Treasury Ministers about this in detail, so it is not the whole of the Treasury process that we are waiting for. And it is a relatively busy time of year for the Chancellor—

Q11 Mr Bacon: I appreciate that. I am not saying that this is what you are doing, but it would be possible to spin out this approach as a way of saying, "There is no point at which you can talk about this publicly because it is all still subject to commercial negotiations." And it always will be, because there will always be another chunk to do.

Lin Homer: No, that would be wrong. I will hand back to Mark, but there are two things. One is that we have done some specific things—quite big chunks—since we last saw you that we can talk about. The other is that we had announcements to staff in both our organisation and Aspire in the new year. I think technically we told you we thought the business case approval would be in spring—

Q12 Mr Bacon: I quote Mr Dearnley, who said, "We expect to be talking publicly about it early in the new year"—and then he added, "in the spring."

Lin Homer: Yes. The phase we think we are in is business case approval in the spring.

Q13 Chair: What spring?

Lin Homer: I do not think I will be arguing with you about the summer solstice. I think spring starts next week and we would expect to be back not long after—

Q14 Mr Bacon: We will get into an argument about the funding of the business case for the improvement of the road at Stonehenge if you are not careful.

Lin Homer: Yes—I think I was responsible for that at one point. So things have happened, not just in terms of those assurance processes, but chunks of business have moved. Perhaps it would be worth Mark filling you in on that, when you are ready.

Q15 Mr Bacon: Tell us briefly, Mr Dearnley, which chunks of business have moved?

Mark Dearnley: Since the last time, we completed the novation. So that means—

Q16 Mr Bacon: For the benefit of our viewers, can you say in English what a novation is? We do not want these Latin words; proper Anglo-Saxon will do.

Mark Dearnley: When we were last sat in front of you we had one large contract with Capgemini and underneath them were two major subcontractors: Fujitsu and Accenture.

Q17 Mr Bacon: Remind me: I think the value of the Fujitsu piece was £2.8 billion-ish.

Mark Dearnley: Ish.

Q18 Mr Bacon: And the Accenture piece was roughly 10% of the value of the contract, so about £1 billion.

Mark Dearnley: Yes, in that sort of order. Since then we have completed the novation. What that means is we now have direct relationships with Capgemini, Fujitsu and Accenture. That completes something that was committed in 2012. Now we have got those relationships, that also means that we have started some of the transition work, particularly with Fujitsu. So we have to work, as we go through the whole transition, with the people, the applications and the infrastructure.

The infrastructure is all of the hardware—the servers, discs and all the storage that everything is on—and with Fujitsu we have already started the process to move off the dedicated hardware that we have been on to date and on to private clouds that they have been building for us. I think we talked last time about our utilisation of our current servers being very low—about 6%. That means we can have much higher utilisation. Even more importantly, private clouds get us in the position where we can start to move work loads—move the running of the applications between different providers and different data centres. So with Fujitsu and this model, over the next two years we get into a place where our infrastructure becomes portable, and instead of having to buy from dedicated data centres we can actually start to use the sort of digital services framework that Bill offers us, and use many more providers to be able to give us our infrastructure.

Q19 Mr Bacon: But at the same time, part of the reason for having a low utilisation rate—it is a bit like the discussions we used to have with the MOD about how much ammunition do you need in the field—was because you could not risk its not being available. Making equally sure that it is always available is just as important—even though you are doing it in a completely different way.

Mark Dearnley: And actually, this year through the self-assessment peak at the end of January we ran two types of service—because it is our first year of using the cloud in anger. We ran our sort of traditional classic, for some of the stuff you use, which was all on dedicated infrastructure that had been sized for the peak minute of the peak hour of the peak day—and that infrastructure went in nine months in advance. On the other side, where we were doing some of our new digital services, we were actually dynamically changing the number of services available, based on the number of users and the predictions for the next day. So we have already started. We are not in a "turn them up and down every minute" situation, but certainly on a daily basis now we are able to choose how many servers we have.

Q20 Mr Bacon: So you are telling me, I think, that because the technology has moved on, and the way people can supply services has moved on, you are able to calibrate it more finely.

I would have thought, as a lay person, to have the same degree of assurance that you will always have the availability, there will be a cost to that, because even if it is not on your server—your server that is only getting 6% utilised—it has got to be on somebody's server somewhere, and there is a cost to that and to making sure it is available, whether it is a shipyard that you are, or are not, building an aircraft carrier in, or a server that is or is not being used on a particular day. It has got to be capable of being available in just the same way; there is a cost to that.

Is what you are saying, "Yes, all that is true, but because of the way services are supplied you can pare away, hone away, at the cost of doing that, so that net, net, net it is cheaper than it otherwise would have been"?

Mark Dearnley: Correct; and you share, so that the provider can share the macro-capacity and then keep some available for people to use as they need; and therefore you get much better cost.

Q21 Mr Bacon: That is not new. That was the whole rationale of outsourcing in the 1980s.

Lin Homer: But we kind of lost some of that by crystallising back down into this big service just for ourselves, which just had our peaks in it. So you are absolutely right; we would expect to maintain the same level of resilience, but it is, we think, a kind of more efficient way overall. But we take your point, and part of the reason why we are moving towards this phased transition approach is to allow us to test some of these new approaches without the whole system being under the pressure of change at the same time. You talked a lot with us last time about risk—quite rightly—and our approach to that, in a way, is a phased transition allows us to take over and do differently elements of the work while other bits are running as they always did. We think that seriously de-risks the necessary transition we have got over this period.

Q22 Mr Bacon: I have a got a couple of questions I would like to ask very quickly. One is about skills, because you talked previously about recruiting the right number of people at the right level. What progress have you made since we met you in October in the specific area of getting enough of the right people in?

Mark Dearnley: When we met last time I promised you my final member of my leadership team was arriving a few days later. He did join and has been fantastic. We brought in a number more of SCS—so the senior leaders—and we are on about 68 more people in our digital centres; but actually now we have got the business case approved we are going out for our next wave of recruitment. In our next wave we are going out for nine more senior leaders, 47 more managers, and we go up to 137 technical.

Q23 Mr Bacon: That is on top.

Mark Dearnley: That is on top of all of this, yes; we have deliberately waited until we got the business case clear to know exactly the types of people we wanted to recruit and in what place; and Bill has been helpful on that as well, round the commercial side—because that was one of the other areas. We had the technical side, the commercial side. What we have done since then is work a lot more closely with Bill’s team. He has now put six people into our team to help us.

Q24 Mr Bacon: Seconded across?

Mark Dearnley: Yes.

Q25 Mr Bacon: Pretty much full time?

Mark Dearnley: Absolutely.

Q26 Mr Bacon: Are they full time for a short period?

Bill Crothers: For as long as is needed.

Q27 Mr Bacon: You have until June 2017 to be up and running with these new contracts. That means, in effect, that any of the commercial agreements and contractualising following the agreements needs ideally to be finished 12 months before that, so that you have a nice run-in period and it can be smooth and then ramp up, and so that you have a contingency plan should there be any glitches and so on. Effectively, you have about 14 months left before your 12 month run-in starts in June 2016—summer next year—to make all that happen. Are you more confident now than you were when we met in October that you will be able to meet that timetable?

Mark Dearnley: With our phased approach, where we start early, I think we are more confident. With what we are starting on the infrastructure side, where we have been getting on with it, we are in a better position than we were last time we met.

Q28 Mr Bacon: Liam Maxwell, who didn't come with you on the Monday but made a solo appearance on the Wednesday, was asked by me in Question 237: "What is your contingency plan?" He said: "Our contingency plan…if there is a reasonable and strong case to do so, we would extend." Would you say it is now less likely that you will be extending than it was three months ago?

Mark Dearnley: We talk about this quite a lot. We have dozens of contingency plans. By being phased, we are now not talking about a big bang; we are talking about lots of little bangs that hopefully do not even go bang, so that we can change our mind and learn from the earlier ones. It is an iterative, agile process towards it.

Q29 Chair: To answer the question, are you carrying on using Aspire beyond the contractual commitment?

Mark Dearnley: Will some of the Aspire providers win some of the follow-on work? Quite possibly.

Q30 Chair: That is a different issue. Because you will not be ready and because of all the dependency of this on getting the money in, the worry was that you would be cutting off the existing systems before you had new ones in place. Are you going to extend existing systems?

Lin Homer: We are much more confident that we will not have to get to 2017 and just roll Aspire over. Because stability is really important—that was the point several of you made last time, including Mr Bacon—if we got to a point where an element of this was better left for a period of time, I think we would have the freedom to do that. But our preference would be making progress in steps. If we did that at all, it would be for some elements that we judged worth taking beyond just the transition time. I do not think that we think we have to make that decision in any kind of big bang way.

Q31 Mr Bacon: When you say, "We would have the freedom to do that," do you mean, "We would have the freedom to extend parts of the Aspire contract but not other parts"? Is that what you are saying?

Lin Homer: We have novated one part over, so there is no question now that we will have to roll that bit of Aspire forward beyond 2017. We have changed that dynamic already.

Q32 Mr Bacon: Do you mean that there is no question but that we will not have to?

Lin Homer: That's right, because it is no longer part of Aspire. We have broken that out of the "everything goes through" cap. If we ended up in a position towards the end with elements of the contract where we thought, "This is all going well but it feels quite risky. We tried that and it's good, but it doesn't feel quite stable," an option would be to say, "We're going to leave a piece with you longer than we said." We have that power under the contract, but we do not believe that we will be in a position where we have to exercise that, as has been the case with some, en masse.

Q33 Chair: I want Bill Crothers to come in because it was your guy who said this to us last time. If I'm fair, I think there was a bit of greater confidence on your part, Lin, that you would not have to extend even parts of it. Is it your view now, Bill, that you will have to extend in order to ensure a smooth flow, fingers crossed, to the new system?

Bill Crothers: The commercial negotiations are in flight at the minute, before purdah, so some of it is influenced by that. If I had to take a judgment, I would say that it is less likely that we will have to extend than it was three months ago.

Q34 Chair: Less likely?

Bill Crothers: Yes.

Q35 Chair: And are they maintaining their capability so that they could do it? What we do not want is the system to fall through.

Bill Crothers: Are Capgemini maintaining? Yes, they are, but it is difficult to balance the money and, perhaps more importantly, the people. Keeping the Capgemini people interested and engaged—

Mr Bacon: On that point—*[Interruption.]* Only because it is relevant.

Dame Anne McGuire: You have racked up all the questions.

Q36 Mr Bacon: You are being incredibly patient.

Would one of the options be for the younger, more entrepreneurial members of the existing contractors—those who are not shortly facing retirement or early retirement—to set up de novo companies, or start-ups, which would supply portions of the service as new entities and would bid for that work knowing that they have the experience of having done it before? Is that likely to happen? If it is, would you be seriously looking at it, or do the rules not permit it?

Bill Crothers: The rules permit it. It is possible. I have not seen any evidence of it to date. It needs an entrepreneurial spirit. It could happen, but I don't think so.

Q37 Dame Anne McGuire: May I ask you a bit about the market in which you are recruiting? That is the one area about which we were pretty uncertain last time. Indeed, even you, Mr Dearnley, said at one point that you were worried about it. Given that there is an incredibly competitive market out there, are you recruiting people because they love the challenge of what you are offering or because you are offering fantastic salaries? In other words, are you offering civil service salaries, or are you offering salaries that recognise how competitive a market it is?

Mark Dearnley: For the vast majority of them, we are offering civil service salaries, so it is about the challenge and the opportunity that we bring. It is easy to underestimate just how exciting what we are doing is—particularly the scale around the data, the digital and the infrastructure. One of the other spin-off advantages of where we are with some of the private cloud stuff that I talked about is that it is on the leading edge of the industry, so we are finding people who want to get involved in it. For a few specialist roles, we are using some of the labour market supplements offered to us by the Treasury—particularly in some of the niche architecture areas and the cyber areas—but that is a very small percentage of the overall numbers.

Lin Homer: To follow on from Mr Bacon's point, some of those young, exciting folk actually want to be part of this. It is not splitting in quite the way you would imagine. In the Newcastle setting, we are finding an ability to attract a lot of talent to jobs that they think look really exciting.

Dame Anne McGuire: We were all young and exciting once.

Lin Homer: We still are.

Q38 Dame Anne McGuire: There comes a point at which that challenge is challenged in its turn by the ability to get more money for the exciting skills that you have. I suppose that begs the question, how sustainable is the model, given the fact that you are locked in, albeit with nuances here and there, to civil service salaries? Those exciting young people who love a challenge can go out, even if they live in Newcastle, because in IT you don't actually have to live in the place where you are working from. How are you going to sustain the model?

Mark Dearnley: We expect higher attrition over the next few years—

Q39 Dame Anne McGuire: So you do expect higher attrition.

Mark Dearnley: Higher than we have had traditionally, because we have actually run a very low attrition. That is why we are going out in a very big way into the graduate market and the apprentice market. We will build, and hopefully we will keep lots. We will lose some, but we want to create that vehicle. In the worst case scenario, if they leave, we will have created some great people for the wider market.

Q40 Dame Anne McGuire: I am not sure that the purpose of the exercise is for you to create all sorts of skills for the wider market. You are trying to attract the wider market to you.

Lin Homer: But that attracts other people in. I think there is a healthy level of attrition, and if people see joining an organisation as a good way to acquire skills and build a career, other people follow them in.

Q41 Dame Anne McGuire: But if you have a healthy level of attrition within a system that was perhaps more cohesive—we are talking about a multiplicity of suppliers—I think that creates a different issue, in terms of attrition, from the one you are used to dealing with.

Lin Homer: I agree, but I also think that we would still want to use the market.

Q42 Dame Anne McGuire: Does "I agree" mean that you are looking at it, worried about it or have contingency plans to cope with it? Is it less stable than we would normally expect from HMRC?

Mark Dearnley: Yes to many of those. To pick up Mr Bacon's point, we are running under 5% attrition at the moment, which is low.

Q43 Mr Bacon: Very low.

Mark Dearnley: Exactly. Through this model, it will not suddenly jump, because we have a mixed work force, but I expect us to get to a place where we can sustainably cope with around a 10% attrition rate.

Q44 Dame Anne McGuire: I have one final question. Probably most members of the PAC have heard from PCS today. You will not be surprised to know that they are a bit cynical about all this. One of the issues that they have raised—I have no hesitation in putting it to you—is their concern that the current hubs in Telford and Worthing could be moved to another location. Indeed, there is still concern that some of the work might be moved offshore. Can I seek an assurance today that there will be no offshoring of this work?

Lin Homer: We certainly are not planning to take the work in Worthing and move it offshore.

Q45 Dame Anne McGuire: That was not my question. Will any of the work be taken offshore?

Lin Homer: It is not in our current plans.

Q46 Dame Anne McGuire: Is that a no, then?

Lin Homer: Not for all time, because we may end up with a different policy. We have talked to you before about being in that environment. Our view is that ours is a system that requires stability and protection, and we will make operational judgments based on that. We think there are some aspects of development work that can be done in other places, without moving to a position where you are running systems and your core data is going offshore.

As to whether we will stay in all the locations, we have talked quite openly with our staff about a belief that over time we will be better off concentrating our work force in a more limited number of places where we can design really good places to work—really good training, really good kit—and I have shared with you before that, when Lesley was in charge of the business at its height of merger, we had more than 600 sites, and that is not tenable. We would plan to make a movement from where we are to that position, taking into account the staff and the skills we have got, and what we need.

We have a number of sites where there are quite deep specialist skills, and we would take that into account. So I have said to staff that we cannot guarantee we will stay in a place for ever, but what we can guarantee is that we will be a big employer in a number of places. We would plan to offer a stronger employment offer as we go forward, in terms of location, technology, skills and support. That is a space that I hope PCS will want to join us in, because that ought to be something a union would value, too.

Q47 Chair: Okay. I want to ask Bill Crothers a question. We have come back to this so quickly because we have lived through universal credit; Richard lived through the NHS IT fiasco; and this might be exciting, but it looks a bit scary. I want you from the centre to tell us whether we are right to be scared. Are we at risk? Is HMRC able to collect £500 billion? That is scary. It may be exciting, but it is scary.

Bill Crothers: In preparing for this I was re-reading some of your previous statements. You often say this is enormous, and I think it is absolutely enormous. I think it is high risk, and it will continue to be high risk for years to come, until it is done, and I think it is incredibly important. That should guide everything we do. Yes, there are savings, but those three things—it's enormous, it's risky and it's important—should guide what we do.

Behind what Lin and Mark are doing is getting better capability, getting us to be a better client, and doing things in a phased way as much as we can. The novation of the contracts from Fujitsu is a start to that, and we are trying to break it up into chunks. We should not be complacent.

Q48 Chair: Is it red, amber or green?

Mark Dearnley: Technically it is amber/red, which is what I would expect it to be right now.

Bill Crothers: MPRG is on the list. In IT, it is probably the programme that is up there as IT programmes. MPRG had a very good review recently when we looked at the business case. It gave three or four points to watch, none of which would surprise you. We just need to keep concentrating. It is a little bit like a footballer on the pitch: they must not lose concentration because it is so high risk. It is so important.

Q49 Chair: But in the end, the certainty of the income is more important than the savings that you hope to get out of the reform.

Bill Crothers: Absolutely, Chairman. The absolute most important thing is business continuity—collecting £500 billion this year and next year, and so on.

Q50 Mr Bacon: Are you a single point of failure?

Bill Crothers: The Cabinet Office?

Mr Bacon: Are you?

Bill Crothers: Me personally?

Mr Bacon: Yes.

Bill Crothers: I am not paid as such.

Q51 Mr Bacon: I know many people who are not paid as such, but they still are, in effect.

Bill Crothers: I am not so sure about that.

Q52 Mr Bacon: Where are the main people risks in this? Are you a single point of failure, Mr Dearnley?

Mark Dearnley: No, I have a great team now, so perhaps at one point, but not now. There is a good team around me and we will grow it even more.

Q53 Guto Bebb: Going back to the staff retention rates, some of which are very good, the argument you presented was effectively that there was a great CV-building opportunity for those individuals. Over the past couple of years working with the FCA and the FSA, I have seen a lot of CV-building opportunities where people then move into the sector that they have been regulating. If you are retaining people because of what you can offer them, is there a possibility or danger that there might be a conflict of interest with future employers?

Lin Homer: I do not think so. One thing that we are increasingly trying to do with our systems is to ensure that many of our intermediaries and stakeholders understand what we can do and can put their intelligence alongside us, if you like. Mark's team and Jennie Granger's team are already working with software providers, not so that they understand entirely the risk judgments that we make, but so that they understand some of the risk triggers that we put into our system and can build them in. That way, the software can say to a small business person, "If you submit your return with that in, they will ask you another question." There is a great deal about how we want our system to work that, in a sense, we want to share with the industry. That is not so in some areas, such as cyber-security, but I think we are confident that we can manage those risks.

As I said earlier, we need to get a rate of return on the people we are attracting, investing in and skilling, but there is something healthy about some of them leaving— my view is that they will come back. My personal view is that we will lose people earlier in their career. This is not just about the manning-risk of folk like Bill or Mark. We will lose a certain number of very bright people heading into the middle of their career, but I think we will get some of them back, because they will go off and look at other pastures, then come back because of the challenge and the value of what they do. I think it is going to be a slightly more fluid career, but I don't think it is all one-way risk.

Q54 Chair: How long is your contract for?

Mark Dearnley: My contract technically runs until October next year.

Q55 Chair: In 2016?

Lin Homer: He is a permanent member of staff, so that is a posting position. He does not automatically get sacked at that point.

Chair: One would hope not.

Lin Homer: Unless I get really fed up with him.

Mark Dearnley: Let's be clear: this is as much fun as I could possibly have, so I do not plan on going anywhere.

Q56 Chair: Are you planning to stay with it and see it through?

Mark Dearnley: Yes.

Q57 Dame Anne McGuire: Did you say that this is as much fun as you have ever had?

Mark Dearnley: Yes, and moments like this are a great joy.

Q58 Mr Bacon: You wouldn't have this in another job, you know.

Mark Dearnley: Tell me about it. It is a fantastic job and we are doing some really interesting stuff, so yes, I plan on staying around.

Bill Crothers: Notwithstanding that, on depth of leadership and capability, these guys have made big improvements, but we have more to go.

Lin Homer: We have got to grow people who can succeed into these roles.

Q59 Mr Bacon: Very quickly, you previously said that the transition costs were going to be £5 million this year and £25 million next year—that was some months ago—and that you would have more accurate numbers as you went on. What are the figures now?

Mark Dearnley: Overall, the transition cost for the entire business case will be about £600 million.

Q60 Mr Bacon: It has gone up a little bit.

Mark Dearnley: No, no, you asked me about the entire transition cost over the whole length of the programme. Next year, it will be just over £100 million. On the £25 million, which was the team cost that we talked about, there is still a similar number for our internal team.

Q61 Mr Bacon: So the £100 million is not an inflation of the £25 million but a separate number?

Mark Dearnley: It is more scope. The team is the £25 million bit. The £100 million includes some of the changes we will be making.

Q62 Mr Bacon: It is encouraging if the scope is going up, because normally the costs go up and the scope goes down.

Mark Dearnley: The scope hasn't changed on this one.

Lin Homer: And that is against a backdrop of us still anticipating a 25% reduction in cost.

Mr Bacon: So you are going from an annual running rate of £800 million down to, you hope, £600 million eventually—is that right?

Q63 Chair: Sorry, Richard, I don't understand that £100 million. Why have you suddenly got an extra £100 million—what is it?

Lin Homer: It is not extra.

Q64 Chair: What is it then?

Mark Dearnley: When we talked last time, we hadn't got a phased plan and were looking at more of a big bang plan. This is where we will start doing work this year to start some of the transition work. It is things around moving infrastructure, preparing some of the software contracts—various things along those lines. We still have a team of people who will be working on it, but they will be starting to enact things much more quickly.

Q65 Chair: What has changed because it is not big bang and you have gone phased?

Lin Homer: We move things in chunks. Some of the savings may come earlier.

Q66 Chair: There is a change in approach?

Lin Homer: Yes.

Mark Dearnley: Yes.

Q67 Mr Bacon: In your plans, at what point will it be costing £600 million annually rather than what it costs now?

Mark Dearnley: We get to that by the 2019-20 financial year, from memory.

Q68 Mr Bacon: So it takes you another five years to get there with this expenditure. Is the £100 million you mentioned £100 million a year, or is it just a one-off?

Mark Dearnley: It is £600 million to do the entire transformation. This year, it is about £100 million, then it goes up and then comes down again.

Q69 Mr Bacon: So you will get to a point when you save £200 million a year, but it will cost you £600 million to do it over five years.

Mark Dearnley: Yes, and you start to get benefits ahead; you do not have to wait—

Q70 Mr Bacon: Yes, some of the savings can come earlier, as Lin Homer was saying. A final question: you said in response to our previous Report that you have already opened one new digital delivery centre in Newcastle and have plans for others to increase your in-house digital capability. How many, where, and how much will they cost?

Mark Dearnley: We have a second one in London, which we call the south bank one, because it is in a building just south of the river. At the moment we are talking about opening a third in Telford. We are working with our agency organisation, the VOA, to do one down in Worthing, probably. It is too early for me to talk about looking at a potential fifth.

Q71 Mr Bacon: And the total expenditure?

Mark Dearnley: I do not know the amount we have spent on it.

Q72 Mr Bacon: Will you write to us?

Mark Dearnley: Of course.

Mr Bacon: Thank you very much.

Chair: Good.

Lin Homer: Do you want us to go?

Mr Bacon: We'd like you to stay, but we have other witnesses.