HOUSE OF COMMONS

# Public Accounts Committee

## Oral evidence: Modernising the Disclosure and Barring Service, HC 695

Monday 19 March 2018

Ordered by the House of Commons to be published on 19 March 2018.

Watch the meeting

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Caroline Flint; Gillian Keegan; Layla Moran; Anne Marie Morris; Lee Rowley.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Steven Corbishley, Director, NAO, and Marius Gallaher, Alternate Officer of Accounts, HM Treasury, were in attendance.

Questions 1-203

### Witnesses

I: Shankar Narayanan, Head of UK and Ireland, Tata Consultancy Services; Sir Philip Rutnam, Permanent Secretary, Home Office; Scott McPherson, Director General, Crime, Police and Fire Group, Home Office; and Adele Downey, Chief Executive Officer, Disclosure and Barring Service.

Report by the Comptroller and Auditor General

Home Office: Investigation into the Disclosure and Barring Service (HC 715)

## Examination of witnesses

Witnesses: Shankar Narayanan, Sir Philip Rutnam, Scott McPherson and Adele Downey

**Chair:** Welcome to the Public Accounts Committee on Monday 19 March 2018. We are here today to look at the NAO's investigation into the Disclosure and Barring Service, which was created out of the Criminal Records Bureau and the vetting and barring scheme. It started around 2008-09 with an attempt to modernise the system to ensure that people's checks for working with vulnerable people—children and vulnerable adults—were in place in good time. Today we are looking at the modernisation of this and the contract let to Tata Consultancy Services to design, build and run a new IT system, to modernise the system so that it was not just paper checks but available as an online update.

The DBS has already paid £8.3 million to Tata for 24 of a 46-month delay in the contract—one of the longest delays we have seen in contracts. We know that negotiations are still underway to settle on the remaining delay. We understand that that might hamper some of your answers, but we want honest answers today, please, on what has gone wrong and why this has this failed so badly and been so delayed.

I want to introduce our witnesses and then I have some questions for Sir Philip Rutnam on other issues—I am sure you understand that, given what has been happening in the last week—before we get into the main session. Our witnesses, from my left to right, are: Adele Downey, the chief executive officer of the Disclosure and Barring Service—welcome to you; Scott McPherson, the director general for crime, police and fire group at the Home Office; Sir Philip Rutnam, the permanent secretary at the Home Office since about a year ago; and Shankar Narayanan—have I pronounced it right?

***Shankar Narayanan:*** Yes, that's fine.

Q1 **Chair:** You are the head of UK and Ireland for Tata Consultancy Services. Just to be clear, this is the same Tata that runs the steel business—are you part of the same group?

***Shankar Narayanan:*** It is part of the same group, but TCS is an independent operating company within the Tata Group. For the purposes of this session, we would appreciate it if you would refer to us as TCS.

Q2 **Chair:** TCS—that is what you are known as. Fine.

First of all, Permanent Secretary, we kick off with the very unfortunate incidents in Salisbury. Could you update us, if you know, on how Detective Sergeant Nick Bailey is doing? Is he still in hospital?

***Sir Philip Rutnam:*** I do not have any further update to give you beyond that which has been shared most recently by the police or by Ministers.

Q3 **Chair:** As far as I understand it—as we understand from press reports—38 people were treated for some degree of exposure in Salisbury.

***Sir Philip Rutnam:*** Again, I am afraid I did not know this was going to be a topic of discussion at the start of the hearing, so I do not have up-to-date information on the number of people treated in hospital.

Q4 **Chair:** Perhaps you can tell us about what involvement you had in decisions made about telling the public who were in the vicinity at the time of the nerve attack. It took about a week for them to get advice about what to do. Were you involved in those decisions and discussions?

***Sir Philip Rutnam:*** Are you asking whether I was personally involved in those discussions?

**Chair:** Yes, personally involved.

***Sir Philip Rutnam:*** Not closely involved personally; those were matters that, so far as I am aware, were dealt with by the relevant ministerial committees, whether it was Cobra or the National Security Council, and by the relevant professional bodies, including Public Health England and the Department of Health—

Q5 **Chair:** Were you involved in those Cobra meetings in any way?

***Sir Philip Rutnam:*** Personally I did not attend them, but other senior officials from the Department did. If it would be helpful, now that I am aware that this is a subject of interest, I could write to you—

Q6 **Chair:** I have to say, Permanent Secretary, I do find it a bit odd. Normally I would give notice, but for something this current and this important, I would have thought you might have been aware that we might have wanted to ask some questions about an attack by the Russians on British soil and your involvement as permanent secretary at the Home Office.

***Sir Philip Rutnam:*** I have to say that I do not have in my head specifics such as how many people have been treated in hospital. I do not want to give you an answer that is anything other than authoritative. So without being made aware of this beforehand, I do not want to give you an answer that might be incorrect.

Q7 **Chair:** Okay. One of the things that has struck a number of people is that there was a long time between the incident happening and general advice being given to members of the public. Is there any light you can shed on what decision-making process took so long in government before members of the public were advised, for example, to wipe down their mobile phones with baby wipes and wash their clothes?

***Sir Philip Rutnam:*** Rather than giving you an answer that may not be authoritative, I can undertake to write to you on this matter.

Q8 **Chair:** What was your involvement in this, as permanent secretary at the Home Office?

***Sir Philip Rutnam:*** I have been deeply involved in a number of respects, but I did not attend those particular meetings.

Q9 **Chair:** In terms of your contact with Wiltshire Police, is the Home Office providing any additional support? Obviously counter-terrorism police are involved from the Met, but is the Home Office providing any additional funding or support to Wiltshire Police to deal with this incident?

***Sir Philip Rutnam:*** We have been closely involved, as you would expect, in a whole range of aspects of this incident, including discussions with Wiltshire Police and with the national counter-terrorism police. We are aware of the mutual assistance that is being provided to Wiltshire Police by a number of other forces. If there are questions of funding, I am sure that those will be addressed in the normal way.

You may be familiar with the fact that it is open to individual police forces to apply for special grant if they think that the criteria for special grant are met. I am not aware that that is an issue that has been raised yet. It is possible that it has been, but I am afraid, again, that I cannot tell you.

Q10 **Chair:** Is there anything you would like to do now to reassure the public in Salisbury? We hear that Salisbury is a bit of a ghost town at the moment, because of all the publicity and concern around this. Have you got any message for the public to reassure them?

***Sir Philip Rutnam:*** You will be aware that the Prime Minister as well as a number of other Ministers have visited Salisbury, and I think that quite extensive advice has been given to the local people of Salisbury about the safety of moving around, and significant reassurance has been provided. Without having the authoritative position in front of me now, I do not really want to add to what has already been said on a number of occasions by members of the Government, who are far more senior than me.

Q11 **Chair:** One of the areas that is very much in your purview as permanent secretary at the Home Office is the issue around wealth confiscation orders, and we have looked at this as a Committee before. Are you now taking steps to step up the use of those confiscation orders for some of the so-called Russian oligarchs who are living and working sometimes in this country?

***Sir Philip Rutnam:*** You will be aware that the Government have taken a number of measures to enhance the legal framework in this area, and indeed recently the first two unexplained wealth orders were obtained by the National Crime Agency in court. This is an area in which practical progress is already being made, through the law enforcement system. I don't want to say anything specific about any link to Russia or any other country. Of course, there is a great deal of speculation in the press.

Q12 **Chair:** So you've got nothing to add to that speculation in the press. Anything you want to quell, in terms of speculation?

***Sir Philip Rutnam:*** I don't want to appear unbriefed in front of the Committee on matters as important as these. If I had been given more notice of particular questions that the Committee might have wanted to raise, I would have been—

Q13 **Chair:** I asked you a general question about what you're doing on confiscation orders, and surely that's right bang in your—

***Sir Philip Rutnam:*** And, Chair, you also made a link to the situation in relation to Russia. I have offered the comment that the Government have done a great deal through additional legislation in this area and recently the first two unexplained wealth orders have been obtained in court. This is an area of significant progress, and I am sure it will be the area of further developments yet.

**Chair:** Okay. I will bring in Anne Marie Morris.

Q14 **Anne Marie Morris:** Sir Philip, I appreciate that there may be a few challenges in talking about current affairs, but what leaves me concerned is that, because of the length of time it's taken to deal with this, you didn't have in place a plan for this sort of event, because it's not the first time we've had this happen on UK ground. Do you have in place a robust plan, so that when this sort of thing happens, like this poisoning in Salisbury, you can kick it into effect and work together, alongside health, the police and the Foreign Office, to make sure you deal with the problem promptly?

***Sir Philip Rutnam:*** To be clear, I think this is the first time that a military-grade chemical weapon has been used in Europe, as I understand it, since the second world war, so this is an unprecedented event. But of course, we do have plans for dealing with all sorts of different threats, including chemical threats, and other types of threat as well.

I am sure that when the time comes, as always in relation to any incident, there will be an opportunity to reflect on what has worked and what has not worked so well in relation to this incident and an opportunity to make our response better.

I do wish to comment on the absolutely fantastic response of the emergency services and the military in providing support to the civil powers in dealing with this incident. It is unprecedented. There will no doubt be things that we can do better in future, but it has been a fantastic response by emergency services and specialists from right across government and the military.

Q15 **Anne Marie Morris:** Sir Philip, I would not in any way want to criticise our emergency services. They are wonderful and do a fine job, but they can only work effectively if they know what they are doing and there is a plan ahead. Help me, because I am no expert in these sorts of incidents, but I did think we had had a previous incident in which a Russian spy had been attacked and died. Am I not right? What is the difference between—

***Sir Philip Rutnam:*** That would be classified as a radiological rather than a chemical weapon incident. I am not a scientist, but from memory, the relevant instrument used then was polonium, which is a radioactive isotope.

Q16 **Anne Marie Morris:** Sir Philip, I hear what you say, but it is a bit like splitting a hair. Whatever it is, whether it is chemical or radioactive, and whatever the cause, surely you must have a plan, because you do not know what the cause is going to be.

***Sir Philip Rutnam:*** And as I have said, we have plans to deal with a wide range of threats. You have raised the question of a chemical weapon that was used. We have plans, together with our partners in the national security community, to deal with a very wide range of different types of threat, so of course we are prepared. There is always more preparation that can be done and always more learning, whether from experience here in the UK or from elsewhere in the world.

Q17 **Anne Marie Morris:** So, Sir Philip, what did you learn from the last incident, albeit it was different?

***Sir Philip Rutnam:*** From the Litvinenko incident?

**Anne Marie Morris:** Yes.

***Sir Philip Rutnam:*** If you look at the statements that have been made by the Prime Minister and other senior Ministers, you will have seen a number of references to the Litvinenko incident and what the Government have learnt from the handling of that incident at that time.

Q18 **Caroline Flint:** Is Salisbury safe?

***Sir Philip Rutnam:*** It is safe as far as I know, but I want to reiterate that I was not asked to come to this Committee to speak about this very important national security incident.

Q19 **Chair:** Permanent Secretary, you are the permanent secretary of the Home Office. I would have thought it would be pretty obvious that we would want to talk about something as important as this.

***Sir Philip Rutnam:*** I'm afraid not. What was obvious to me was that you wanted to talk about the Disclosure and Barring Service. If I had been given even half an hour's notice that you wanted a statement on the record about public health, I would have come with statements for the record on public health. The answer to your question, Ms Flint, is yes, Salisbury is safe, as the Prime Minister and a number of other senior Ministers have said. Public Health England has advice on its website about the safety of Salisbury.

Q20 **Caroline Flint:** I'm sorry if you're being put on the spot, Sir Philip. Can you tell me who attended the Cobra meetings on behalf of the Home

Office?

***Sir Philip Rutnam:*** Relevant Ministers will have attended.

Q21 **Caroline Flint:** I understand that, but which senior official in the Home Office attended?

***Sir Philip Rutnam:*** The senior official who usually attends those meetings is the director general of the office for security and counter terrorism, Tom Hurd.

Q22 **Caroline Flint:** On the public health aspect, is it the Department of Health's responsibility to ensure that its agencies such as Public Health England act to notify the public speedily about the risks or about whether it is safe? Do they ensure those messages go out? Is it a Department of Health responsibility?

***Sir Philip Rutnam:*** The Department of Health leads on public health, but as you would expect in these circumstances, we are working very closely across government in relation to this incident. Because of its specialist nature, the Ministry of Defence and the Defence Scientific and Technological Laboratory are also closely involved.

Q23 **Caroline Flint:** Presumably at the Cobra meetings, on such a terrible situation as this, part of the discussion would be about how quickly whatever agency can secure for the public's knowledge that it is now safe to move about in the area of Salisbury where this incident took place. That would be part of the discussion at a Cobra meeting.

***Sir Philip Rutnam:*** Of course. Communications with the public are absolutely a standard topic for discussion. It is a core element of the Government's job.

Q24 **Caroline Flint:** Obviously it is about the time between knowing that it was safe, and letting the public know that it was safe—or, for that matter, informing the public about any precautions that they should take. That is what the Chair is interested in: what seemed to be quite a long time delay for the information to be released to the public. Are you saying that all of that would have been discussed at the Cobra meeting?

***Sir Philip Rutnam:*** I am not going to go into the detail of discussions in Government committee meetings, but I believe that as former Ministers you are familiar with the general structure of Government decision-making. There is, of course, a committee called Cobra, which meets from time to time in relation to special incidents. Communications to the public are of course something that that committee discusses.

**Chair:** Thank you for that for now, but we will obviously come back to this. I know that our sister Committees are watching closely what happened here. Clearly it is a serious and concerning matter, which we may need to be prepared for in future. We will want to look back at how well this has gone.

I want now to move on to the main session, looking at the Disclosure and Barring Service and the IT contract.

Q25 **Lee Rowley:** Let's start with the business case, which was kindly sent to the Committee last week. Could you, Sir Philip, Ms Downey and Mr McPherson, tell me what specific outcomes have been achieved in the business case since it was baselined on 18 May 2012?

***Sir Philip Rutnam:*** I will ask Mr McPherson to say something about that.

***Scott McPherson:*** The business case was intended to achieve a wide range of things, one of which was merging the Criminal Records Bureau and the Independent Safeguarding Authority, which has been achieved. It was intended to introduce an update service for the public, responding to public desire to have a more flexible and portable disclosure regime. That has been achieved.

It was clearly also intended to modernise the systems within the Disclosure and Barring Service, which are the key subject of the NAO Report, and which the NAO has identified as being significantly delayed. The final elements of it are still subject to ongoing negotiation between DBS and its supplier. It has not yet all been achieved, but a large number of the original benefits have already been delivered.

Q26 **Lee Rowley:** Could you just give me one-word answers—yes or no—about whether the items on this list have been achieved or not? Financial savings of up to £37 million per annum?

***Scott McPherson:*** No.

Q27 **Lee Rowley:** Overall contract costs reduced by 15% to 20% over the lifetime of the five-year contract that was let?

***Scott McPherson:*** No.

Q28 **Lee Rowley:** Introduction of electronic applications in full for all areas?

***Scott McPherson:*** Not for all areas, no.

Q29 **Lee Rowley:** Introduction of electronic referrals in full for all areas?

***Scott McPherson:*** No.

Q30 **Lee Rowley:** Improved matching algorithms that help automation?

***Scott McPherson:*** No. I suspect that you are going to read me a long list of areas—

Q31 **Lee Rowley:** I am indeed, so if you will just bear with me, I will finish them. Innovative use of social media and other ICT to improve the customer experience through the issuing of electronic certificates?

***Scott McPherson:*** I think some of that has been delivered.

Q32 **Lee Rowley:** Which electronic certificates are now being dealt with? I understand that the NAO Report suggests that that is not the case.

***Adele Downey:*** The basic certificate that we introduced in September—

Q33 **Lee Rowley:** Is it offered electronically?

***Adele Downey:*** Yes.

Q34 **Lee Rowley:** Excellent. But the remainder are not, because phase 2 has not been delivered?

***Adele Downey:*** Within the enhanced disclosure service, 85% of applications are received electronically through our registered bodies. The modernisation programme will deliver that for the full population.

Q35 **Lee Rowley:** So it has not been delivered for the full population?

***Adele Downey:*** No, that is still under discussion.

Q36 **Lee Rowley:** Final one: reduced costs for customers?

***Scott McPherson:*** No, that has not been delivered.

Q37 **Lee Rowley:** No. In fact, quite the contrary—the costs are more expensive than was expected. It was originally expected to be £10; it is £13 for the update service. Is that correct?

***Scott McPherson:*** That is correct.

Q38 **Lee Rowley:** Can we run through that list again in terms of whether you expect them to be realised by the end of the contract? Annualised financial savings of £37 million?

***Adele Downey:*** So—

**Lee Rowley:** A yes or no answer.

***Adele Downey:*** It's not always easy to give a yes or no answer.

Q39 **Lee Rowley:** I know, but that is why you are the chief executive. So, yes or no?

***Adele Downey:*** As you know, there has been a surplus made in the contract, and we plan to have a review so that we can pass those savings—

Q40 **Lee Rowley:** I am talking about costs specifically—£37 million in savings on an annualised basis.

***Adele Downey:*** Yes, we do expect cost savings to be made through this contract.

Q41 **Lee Rowley:** Thirty-seven million?

***Adele Downey:*** I don't know the exact number, but we do—

Q42 **Lee Rowley:** Do you expect it to be in that ballpark?

***Adele Downey:*** Hopefully. I am happy to come back to the Committee and confirm what we expect.

Q43 **Lee Rowley:** The NAO Report does not suggest that, but I would be very grateful if you could let me know by March 2019 whether you expect to achieve that. Overall contract costs reduced by 15% to 20% over the lifetime of the contract?

***Adele Downey:*** Yes.

Q44 **Lee Rowley:** You expect a reduction in costs?

***Adele Downey:*** We expect some cost reduction to be made, so I will confirm both of those to the Committee.

Q45 **Lee Rowley:** How does that square with a total cost of £885 million against the expected £656 million that was proposed in 2012?

***Adele Downey:*** The original business case covered the whole of the operating costs for DBS for a five-year period. It was based on a certain number of applications that we would receive, but demand has increased significantly over those five years. Two thirds of the increase in cost is down to demand.

Q46 **Lee Rowley:** Let's work through the baseline. One third is not down to increased demand, and therefore your costs will have risen, not reduced.

***Adele Downey:*** We are a self-funding organisation, as you know. We have to fund the services. The services are self-funded, and at the moment we have declared a surplus because of those issues.

Q47 **Lee Rowley:** But I said a moment ago that we are talking about just costs, not income. I don't understand how you reconcile the movement from £656 million to £885 million with the 15% to 20% reduction in costs that you told me two minutes ago you expect to achieve.

***Adele Downey:*** I am doing that on the basis of a like-for-like comparison with the original demand profile.

Q48 **Lee Rowley:** Okay, explain that a little more. It was £656 million in a five-year contract, and it is now at £885 million. How is that a 15% to 20% reduction?

***Adele Downey:*** Because if it was done on a like-for-like basis, it would have been a reduction.

Q49 **Lee Rowley:** But you have just told me that two thirds of the increase is down to the non-like-for-like element—in other words, the demand change—so one third of the cost increase is therefore still a cost increase. How can there be a 15% to 20% reduction in that cost?

***Adele Downey:*** Some of that was to do with the transition from Capita to TCS, which was done at the beginning of the contract. The contract's five-year life didn't start until TCS took over in March 2014, which is why it takes it up to March 2015. Some of those costs were against the 2012 baseline.

Q50 **Lee Rowley:** So the totality of that would not be a cost reduction of 15% to 20% on that basis. Let's move on. Are you expecting the introduction of electronic applications in full by March next year?

***Adele Downey:*** That is subject to discussion at the moment. We have introduced it for basic certificates, and we are having commercial discussions with our supplier to agree when the final element of the modernisation programme will be implemented. That is what we are talking about.

Q51 **Lee Rowley:** So it's unknown—okay. Introduction of electronic referrals in full by next year—unknown as well?

***Adele Downey:*** That has already been introduced.

Q52 **Lee Rowley:** In full?

***Adele Downey:*** Yes.

Q53 **Lee Rowley:** Okay. A moment ago, I was told that it wasn't done in full.

***Adele Downey:*** The barring element has been done in full. That is the referrals, which is slightly different from the certificates.

Q54 **Lee Rowley:** Okay, so not in total. Improved matching algorithms by March 2019?

***Adele Downey:*** That is part of the next phase of the delivery of the modernisation programme. It is subject to discussion at the moment.

Q55 **Lee Rowley:** Unknown—okay. Innovative use of social media and other ICT to improve the customer experience, including the full issuing of electronic certificates by March next year?

***Adele Downey:*** Again, that is part of the discussion.

Q56 **Lee Rowley:** Unknown—okay. Reduced costs for customers?

***Adele Downey:*** Again, that is part of the final discussion.

Q57 **Lee Rowley:** So that one's unknown as well. Okay, great; thank you. Can we move on to the benefits? The benefits case and the benefits of this project are not currently being tracked. Is that correct?

***Adele Downey:*** We do track benefits. We report into the Government Major Projects Authority on the financial savings that were expected by this programme. We do report in what our financial position is. Some of the benefits will come with the next phase of the modernisation—in other words, further efficiencies within my organisation, which will be tracked as soon as that has been implemented.

Q58 **Lee Rowley:** Can you tell me what the latest position is on your benefits, as you are tracking them right now?

***Adele Downey:*** We have put forward to the Cabinet Office where we are with the project.

Q59 **Lee Rowley:** So can you tell me what they are?

***Adele Downey:*** I don't have that number to hand, I'm afraid. I can come back to you on that.

Q60 **Lee Rowley:** Okay, so you are coming to a Committee to talk about the Disclosure and Barring Service without being able to tell us what the benefits of what you have delivered are?

***Adele Downey:*** There are a lot of benefits that we have delivered.

Q61 **Lee Rowley:** I'm giving you the stage to tell me what they are.

**Chair:** Lay it out for us.

***Adele Downey:*** There have been a lot of benefits, in terms of the implementation of the update service for more than 1.2 million of our customers, who find it of great benefit. There have been benefits from merging the Independent Safeguarding Authority and the Criminal Records Bureau, which are able to share more information between each other. We have introduced benefits by implementing a new product called Basic last September. We have already issued more than 300,000 applications through that service, which include digital front-end—the first digital application we implemented in DBS. We have also implemented the new modernisation in our barring service.

Q62 **Lee Rowley:** Are the benefits that were specifically in the business case on 18 May 2012 still being tracked, rather than the wider ones that you have just been describing?

***Adele Downey:*** As you will be aware, we reviewed the benefits when we reviewed the business case in 2014. We reviewed the update service applications in that and changed the forecast for those. We have been tracking to that forecast for the past four years. We are measuring ourselves against the 2014 business case.

Q63 **Lee Rowley:** Paragraph 13 of the NAO Report says: "The wider benefits expected in 2012 are not being tracked". A moment ago, you told me they were. Which one is correct?

***Adele Downey:*** There are some that are. The wider benefits that will come as a result of the full implementation of the modernisation programme are not yet being tracked because they have not been realised yet.

Q64 **Lee Rowley:** Okay, so they are not being tracked. In the business case, it states clearly on page 57 that the benefits case for the programme will be continually monitored. When was the decision made to stop monitoring them and who made that decision?

***Adele Downey:*** We have not stopped monitoring them; they just have not been realised to be monitored. We know what we expect to be delivered by the modernisation programme, but they have not been realised yet.

Q65 **Lee Rowley:** I understand the difference between whether benefits have been realised or not; I am asking whether benefits are being tracked to assess whether they have been realised. Are benefits being tracked to assess whether they have been realised? A moment ago, you told me no.

***Adele Downey:*** We report to the Home Office on progress against delivery of the business case. We report against the benefits that are being achieved and the benefits that will come with the future implementation. It is tracked, but we have not realised all the efficiencies expected yet. That will not happen until we deliver the modernisation programme, which is under discussion at the moment.

Q66 **Lee Rowley:** The conclusion I should therefore draw from your witness statement is that paragraph 13 of the NAO Report is not correct when it says: "The wider benefits expected in 2012 are not being tracked." It is a very clear statement.

***Adele Downey:*** I am not quite sure what they mean by the wider benefits. I think some of it might be to do with the wider safeguarding benefits of the whole regime. If it is that, they are not being tracked.

**Chair:** I think we need to bring in Steve Corbishley from the NAO just to clarify what the NAO's definition is in the Report, which I should stress is in an agreed Report. Can you give a brief clarification about whether you agree with Ms Downey's interpretation of what you mean by the wider benefits?

***Steven Corbishley:*** We talk here about the ability of the modernisation programme to deliver the safeguarding duties through more frequent checking and thereby improving. It is the safeguarding benefits that we have been talking about and the means by which you get there.

**Chair:** So Ms Downey is correct in her interpretation of that.

Q67 **Lee Rowley:** Can we move on to the contract? Can Sir Philip, Ms Downey or Mr McPherson tell me why you were prepared to enter into a commercial contract with an apparent margin of 30% gross and 22% net?

***Sir Philip Rutnam:*** I was not personally involved at the time and I was not in the role at the time. I understand that this was the contract that offered the best quality and that came top for a mix of quality and cost. Typically, in these assessment processes you are looking at a mix of quality and cost. It was the contract that came top of the evaluation process when we looked at those criteria together. I am afraid that that is as much detail as I can provide.

Q68 **Lee Rowley:** So to obtain that level of quality, you were accepting an incredibly generous margin on top of it.

***Sir Philip Rutnam:*** I think there is another important point, which is that the contract also provided a contractual structure for a very significant transfer of risk to the supplier.

Q69 **Lee Rowley:** I would like to talk about that transfer of risk, because page 20 of the NAO Report states: "The contract payment mechanism is linked directly to volumes and not linked to progress on modernisation." I am surprised by your statement that there was a sufficient risk linkage when the Report suggests that that is not the case.

***Sir Philip Rutnam:*** Adele will be able to provide a more detailed answer, but as I understand it, the contractual structure essentially provides for TCS to be paid through what is known as a ticket price. That ticket price falls as expected dates for modernisation are achieved. If those dates are not achieved, there are financial effects on both parties, and there is a significant financial risk taken by our supplier. From the best advice I have had, this contractual structure provided for a significant transfer of risk. Whether it exactly justifies those margins is another matter, but that is what I understand about the contract. Adele might want to add to that.

***Adele Downey:*** The original contract, as I understand it, was to include a recovery by the supplier for the development and investment cost to implement modernisation over a three-year period through the ticket price, which is associated with whatever the demand is at that time. The delivery of the modernisation service has taken a bit longer than expected, and the cost to run the existing system is more expensive than it is for a modernised system. Volume has also increased, and there is a cap on the amount of money the supplier is allowed to recover, so they cannot over-recover profit. That is a protection for us but a risk for the supplier. That is how the contract was constructed.

Q70 **Lee Rowley:** So would you accept that the contract is primarily on volume, with the modernisation being a secondary element? Or is the flipside—modernisation being the primary element and volume being secondary?

***Adele Downey:*** It is the first one. This is primarily a service contract. It is for the supplier to deliver BPO services to us and charge us through the ticket price. Modernisation was a way, as part of the original bid, of improving that service and delivering efficiencies. They were connected, but it is not an IT contract; it is a service contract.

Q71 **Lee Rowley:** So the ultimate incentive in this contract is volume, which can be affected by external factors—demand—rather than modernisation. There was a flaw in the initial approach if modernisation was to be prioritised, and the business case at least suggests that it was to be.

***Adele Downey:*** We tried to redress some of that in the 2014 business case. There are elements of the 2012 business case that, with hindsight, we might have focused slightly differently.

***Sir Philip Rutnam:*** Can I add to that? The fall in the ticket price over the life of the contract is very important, in terms of the incentives it creates for the supplier. The supplier will manage to cover their cost only if they manage to modernise the system so it costs less to run. That was the concept behind the structure.

Q72 **Lee Rowley:** Sure, but the primary approach was volume, rather than modernisation. Let me come back to the initial point. What justification was there for a margin of 22% to 30% for this kind of contractual structure? That is an incredibly high margin for contractual outsourcing activities.

***Sir Philip Rutnam:*** I can only repeat the answer I gave earlier, which is that to the best of my knowledge the supplier came top in the process through the mix of quality and cost. However, it is important to understand that there is a significant transfer of risk. I go back to my point that I don't think it is right to characterise the contract as being dominated by volume. For the supplier to get the result economically, it needs to modernise the service.

Q73 **Lee Rowley:** I'm not characterising it personally as being linked predominantly by volume; it is the National Audit Office that is characterising it in that way in paragraph 3.9 on page 20. I am still unclear about the 22% to 30% margin. I have never seen such a margin in 15 years of commercial activity. I would be interested to know which of the contracts in your purview operate at such margins. For example, was the previous Capita service at that level of margin?

***Adele Downey:*** I don't know.

Q74 **Chair:** Adele Downey, can you shed any light on why this margin was so high? Were you around at the time?

***Adele Downey:*** Yes, I was around at the time, but it was a Home Office-led contract negotiation, so I am not aware of that. None of us were there at the time, but we can probably find out and let the Committee know.

**Lee Rowley:** That would be really helpful.

Q75 **Chair:** Were you aware of the margin at the time?

***Adele Downey:*** No, I wasn't.

Q76 **Chair:** Not until it landed with you.

***Adele Downey:*** It wasn't part of my remit at the time.

***Shankar Narayanan:*** On the point you referred to about margins of 22% to 30%, I might seek clarification from the NAO but to my knowledge that refers to TCS's corporate profit, not the profit from this contract. The profit from this contract was estimated at 22% gross, not 30% gross. I just want to clarify that point.

Q77 **Lee Rowley:** Okay, but it's still double-digit and above 20%. We can all agree on that.

***Shankar Narayanan:*** Yes.

Q78 **Lee Rowley:** Okay, great. Just to finish up on the contractual point, according to the NAO Report, and as Sir Philip indicates, quality was prioritised. TCS's approach was apparently "substantially better technically" and it was "the only bidder who provided the desired approach to commercial risk-sharing and delivery." We have obviously debated risk sharing, but can we debate the other two points? With regard to "substantially better technically", can the witnesses explain how we got ourselves in a position where a contract for this volume was proposed to be delivered with a big-bang approach—a single drop of functionality? It is totally contrary to the PRINCE2 principles.

***Sir Philip Rutnam:*** I recognise the question. I was not in the organisation at the time, so I don't have personal visibility—

Q79 **Chair:** In that case, do you think it was a good idea to do it in—

***Sir Philip Rutnam:*** That is a different question.

**Chair:** Well, that is the one you are dodging.

***Sir Philip Rutnam:*** With hindsight, I think quite a number of things should have been done differently in relation to this programme.

Q80 **Chair:** Like what? Could you give us some precise examples of what you would have done differently if you had been in charge?

***Sir Philip Rutnam:*** As the NAO Report helpfully makes clear, the timescales were over-ambitious. To my mind, there was a lack of realism in the programme planning, and we all know that key to the success of any major change programme is to plan it effectively—to test deliverability against the whole range of risks in the programme. So I think there was a lack of realism. There was clearly quite a lot of confusion about specific elements of the technical solution, including cloud hosting or not. That added some delay to the programme, and cost. There were some issues around the transition, which looked to me like the transition from Capita to TCS. That looked to me like it was under-scoped, in terms of complexity. So I think there are a whole range of things that, with hindsight, could and should have been done differently, and lessons that can be learned.

On the specific question of whether one should take a big-bang approach, my own experience of IT programmes over the last five or six years has been to move markedly away from single-solution, big-bang approaches and to seek to make the approach much more agile and much more incremental, to try to build into the programme the opportunity to learn as one goes along—and "learn" means that if you are going to fail, you fail quickly and you identify the path that is most likely to lead to success. So the approach is much more iterative and less single solution based. That is the philosophy. It is the philosophy that we are applying in some other areas; it is the philosophy that I have applied in other areas in the past.

Q81 **Lee Rowley:** I completely agree; project management has moved massively in that direction. But the reality is that this project was delivered, according to the business case, under PRINCE2 methodology, and a key component of PRINCE2 methodology is splicing up the project into deliverable drops. This clearly had not been done here, and it was not even objectively tried at the beginning; it took two or three years to work out that that was necessary.

***Sir Philip Rutnam:*** I am not disagreeing. The early years of this programme were not successful.

Q82 **Chair:** Ms Downey, you were at the DBS in 2012. What was your role at the time?

***Adele Downey:*** In 2012, when I joined the DBS, I was the deputy chief executive, with responsibility for corporate services.

Q83 **Chair:** So you weren't looking at these outside contracts yourself?

***Adele Downey:*** No.

**Chair:** Sir Philip, who in the Home Office was responsible at the time, other than your predecessor?

***Sir Amyas Morse:*** Sorry, Chair, but may I interject? Does "corporate services" not mean the information environment?

***Adele Downey:*** In corporate services, I was responsible for overseeing finance, HR and the change directorate. On 1 December, when the DBS started, the contract had already been let and the process was already under way. The DBS acknowledged quite early on that a big-bang approach was not right, as Sir Philip has just acknowledged, and sought to change that, which we did with the 2014 business case. We moved to spread out the implementations. We have now implemented the first phase of this, with barring and basics, and I want to learn from that implementation to inform the implementation for the next phase; that is subject to discussion with TCS.

Q84 **Chair:** It seems extraordinary, first, that the DBS was not properly consulted by the Home Office, when you were central to this whole change and, secondly, that with your responsibility for change and finance you did not have more of a direct role. Can you explain what happened?

***Adele Downey:*** The contract was put in place before DBS started. DBS did not start until 1 December 2012. CRB was involved in it, with ISA, but it was a negotiation driven by the Home Office.

Q85 **Sir Geoffrey Clifton-Brown:** Sir Philip, you will have looked back at the papers. Is it not extraordinary that before they even scoped this project, let alone let it, the Home Office did not involve the very body that was going to have to implement it?

***Sir Philip Rutnam:*** I believe that DBS was involved—

***Adele Downey:*** CRB.

***Sir Philip Rutnam:*** Sorry, CRB was involved. The predecessor bodies were involved, but this was a Home Office responsibility during the procurement and the mobilisation phases of the contract, until it was passed to DBS in late 2014.

Q86 **Sir Geoffrey Clifton-Brown:** If CRB was involved, which had had years of experience of this, it must have given the Home Office and your predecessor some advice at the time. Presumably you have looked at that advice. Was it not extraordinary that the Home Office did not take some notice of that advice?

***Sir Philip Rutnam:*** I can say only that yes, I would have expected them to have provided some advice—I assume they did—and I would have expected the Home Office to pay attention to that advice, but I am afraid that I cannot comment on what exactly that advice said and how the Home Office reacted, not having been through that. I completely accept that the primary responsibility for letting the contract, setting up the procurement process, awarding the contract and then the early phases, before it was handed over to DBS, rests with the Home Office.

Q87 **Sir Geoffrey Clifton-Brown:** Surely something as basic as underestimating the costs of obtaining the information from the police because the IT systems were not compatible with the IT systems that TCS were going to run—that cost another £70-odd million—should have been foreseen at the time.

***Sir Philip Rutnam:*** I think that a number of things could and should, with hindsight, have been foreseen, and more realistic estimates made on both schedule and cost.

Q88 **Lee Rowley:** On the basis that we are accepting that most of this contract seems to have been flawed at the beginning, I will move on to TCS's view. Mr Narayanan, you agree that this was a significant contract, correct?

***Shankar Narayanan:*** Yes, it was.

Q89 **Lee Rowley:** With a large number of users?

***Shankar Narayanan:*** Yes.

Q90 **Lee Rowley:** With significant complexity to it?

***Shankar Narayanan:*** Yes.

Q91 **Lee Rowley:** So why did you sign the contract, which was predicated on only one functionality drop?

***Shankar Narayanan:*** For us, the key aspect that made us bid for this contract was the opportunity to modernise a public service. We are an organisation that provides IT transformation for many businesses. We saw this as an opportunity to transform a public service, and that was one of the primary reasons why we bid for the contract.

Q92 **Lee Rowley:** If you are an organisation that provides IT transformation, you will know that IT transformation is usually flawed at the outset by poor definition or poor approach. If we are all comprehensively accepting that there was a poor approach with regard to just one functionality drop, why did you, as the provider, not point that out at the beginning?

***Shankar Narayanan:*** When we bid for the programme, we bid against a specific set of requirements. Clearly, as my colleagues pointed out, in hindsight a lot of things could have been done differently in terms of planning. When we looked at it, we underestimated the complexity of this project. We saw these as requirements, which can be technologically enabled, but we did not have a view of what it takes for the DBS to implement these systems and to launch this service. We underestimated the complexity of the implementation at that point in time.

Q93 **Lee Rowley:** If you did not have a view of the complexity, how could you bid, with any semblance of accuracy, on how you could deliver this contract successfully?

***Shankar Narayanan:*** As I said, we had a set of requirements—a huge number of requirements had been given—so we had a view of what technology was in place. Like every other bidder, we used the information that was available to bid for this programme. So we had to find a solution. At that point in time they had detailed a solution through a competitive bidding process, and it was felt on both sides—the customer side as well as our side—to be implementable. We had taken feedback on the implementability and we had to go by the collective view that this solution was fit for purpose.

Q94 **Lee Rowley:** Okay, so there was a failure on both parts to understand the contract, in terms of what it could achieve and what was necessary in order to deliver it. What testing did you do, as a responsible partner, on whether this solution was actually wanted and needed? I am thinking more about the update service, which I know we will come on to in more detail in a moment. What assessment did you do of the requirements? You are paying a lot of store in the requirements being given to you by the client, effectively. What testing did you do about the appropriateness of those requirements?

***Shankar Narayanan:*** We had to elaborate the requirements as part of this programme as soon as we transitioned this service from the incumbent provider. We spent an enormous amount of time working with DBS to elaborate the requirements and work on a design. So considerable effort was put into understanding the requirements in greater detail and designing a solution. During that period it was decided that it was going to be a lot riskier to launch the service in a big bang, so it was decided to break down the implementation into multiple phases.

**Lee Rowley:** I am still perplexed by this notion that a one-drop big bang would ever have been acceptable. I know that hindsight is a wonderful thing—that is probably the get-out clause that the witnesses are going to use today—but I was working in project management in 2012, as a junior individual, and I knew then that big bangs were not appropriate, particularly for this level of records, users, customers and front-facing activity. I am amazed by the view of the witnesses that it was all fine in 2012 and suddenly we have had this damascene conversion to an agile approach since then.

Q95 **Chair:** Did TCS do other single-drop IT projects?

***Shankar Narayanan:*** We have done big-bang implementations in the private sector.

Q96 **Chair:** Successfully?

***Shankar Narayanan:*** Absolutely.

Q97 **Chair:** Can you name a couple?

***Shankar Narayanan:*** We launched the online services for Marks and Spencer, which was a big-bang implementation.

Q98 **Chair:** No piloting?

***Shankar Narayanan:*** Piloting was of course done. You will do a number of tests, but it was a big-bang implementation.

Q99 **Chair:** Anything else in the public sector?

***Shankar Narayanan:*** In the public sector the one that comes to mind is the Child Maintenance Group, but I wouldn't say it was a big bang. The first functionality was implemented big bang.

Q100 **Lee Rowley:** We accept that the definition was not great. We accept that the initial discussions to be able to ensure that it was equipped to deliver this work were not sufficient and then we got ourselves into a problem a couple of years later. We are now at a place where the project is substantially over-cost, over-time and without a delivery end point. How many times have you recommended to the relevant individuals in the client to pause this programme or stop it?

***Shankar Narayanan:*** I think that between DBS and TCS we still believe in the solution.

Q101 **Chair:** That is not quite the question that Mr Rowley was asking. How many times have you advised to pause it or stop it? From that answer, you are saying not to stop it.

***Shankar Narayanan:*** We have not advised to stop it. We have certainly come together and discussed different ways of working, and moved this programme into adapting agile methods. That helped move things along a lot faster at that point in time. As soon as we realised that we were not making progress, sometime in the middle of 2015, we re-designed the ways of working, in order to improve the momentum behind the programme and subsequently we have been able to make progress and implement the first phase, which is the basics and barring services, in September.

Q102 **Chair:** Were there agreed fees on contract variation, or did you have to negotiate those?

***Shankar Narayanan:*** The contract variation has been enabled only from the perspective of the agreed upon scope changes and the agreed upon delays, as a result of some of the changes to the infrastructure. Those are the aspects that have been agreed upon. Anything beyond that is still yet to be agreed upon between TCS and DBS.

**Chair:** That is still the ongoing legal arguments.

***Shankar Narayanan:*** That is the subject matter of the current discussions.

Q103 **Lee Rowley:** What do the DBS and the Home Office need to do differently in order to get this right?

***Shankar Narayanan:*** In terms of the ways of working, we have learned a lot over this period and we know exactly what is required to be done. There is a clear understanding of the remainder of the scope that is required to be delivered. We are working together to agree a pragmatic and realistic plan to implement the rest of the systems. We know exactly what it takes. There is a learning in terms of how fast the registered bodies can take this change on, so we are working together to see how we could phase the second phase of the implementation over a longer duration. So there is a significant degree of learning that is being incorporated into the remainder of the planning of the disclosure release.

Q104 **Lee Rowley:** I am interested in something, and the question will be put to the civil servants in a moment. If your view is that this contract is still recoverable or deliverable—my words, rather than yours, but you understand where I am going—where does it have to get in order for you to recommend stopping or pausing it? I see a contract that is 46-plus months behind schedule, and growing, and a contract that is, at least in part, £200 million over cost. So how many millions more does a contract have to be over cost, or how much longer does a contract have to be undelivered, before somebody says, "That's it. We can't do it"?

***Shankar Narayanan:*** In terms of the functionalities required for the remainder of the release, a large part of the functionality has already been developed; there is very little that is required to be built into the system. A lot more testing will need to take place. So I don't believe that this contract needs to be stopped. It is recoverable and implementable. We are in the middle of discussions, and in about a month's time we should have a view of when the remainder of the modernisation will be delivered, and in both DBS and TCS we are confident, with the kind of reviews that we have undertaken over the last few months, that the remainder of the modernisation can be delivered in a realistic timeframe.

Q105 **Lee Rowley:** If you are confident that it is recoverable and implementable, why don't I have a date for when it will be recovered and implemented?

***Shankar Narayanan:*** That is part of the discussions that are currently under way, and we are also discussing how fast the implementation needs to happen, to take the 2,250 registered bodies along with this change.

Q106 **Lee Rowley:** Based on the resources you have now, what is your assessment of how long it will take to implement?

***Shankar Narayanan:*** I do not have a date in mind, Sir. I would not want to tell the Committee—

Q107 **Lee Rowley:** So how can you have confidence that it is implementable?

***Shankar Narayanan:*** I am confident that it is implementable, but in terms of the plan it has to be a joint exercise between TCS and DBS, which is currently under way, so I would not want to provide any dates at this point of time.

Q108 **Lee Rowley:** Is it implementable or recoverable before the end of the contract in March 2019?

***Shankar Narayanan:*** Again, that is what we hope to achieve, and we are working towards a plan.

Q109 **Lee Rowley:** Good business practice says that you can usually define the level of confidence you have. What level of confidence do you have with regard to the statement you just made?

***Shankar Narayanan:*** Again, I would not want to make a statement without doing a proper due diligence—

Q110 **Lee Rowley:** So you are telling me that this is implementable and recoverable and you have confidence, but we don't know when it will be implementable or recoverable, or how much confidence you have?

***Shankar Narayanan:*** As I said, until I complete the due diligence with DBS, I will not be able to make a definite statement on that.

Q111 **Lee Rowley:** Okay. I have a couple more questions, and I am interested in your wider view. Tell me what portion of blame I should apportion to you as the provider, as opposed to the client, with regard to the position where you ended up?

***Shankar Narayanan:*** That is a matter of discussion at this point in—

Q112 **Lee Rowley:** Give me your view.

***Shankar Narayanan:*** No, I would not be able to comment on it. That is a matter of discussion between TCS and DBS. That is one of the outstanding negotiations and I would not be able to give a view at this point in time.

Q113 **Lee Rowley:** Okay. In your view more generally, rather than apportioning blame, which part of this contract has failed the most and why? It doesn't matter why—just which part is the most catastrophic failure.

***Shankar Narayanan:*** The Report identifies a couple of areas and we acknowledge that. It is about delays to the contracting, delays to the transition—

Q114 **Lee Rowley:** I am asking you to define the hierarchy, Sir—which one is the worst? If we are going to learn, we have to understand which ones are worst.

***Shankar Narayanan:*** We have all discussed this before—the complexity of this modernisation has been underestimated. The risk profile has been underestimated. The aspect of bringing together a set of applications, a set of infrastructure which has changed over time, the registered bodies, along with the change, as well as orchestrating all of these with respect to system integration and service integration—these were areas where the complexity was a lot greater, and that is the reason why the programme is substantially delayed.

Q115 **Lee Rowley:** Just before I hand back, I want to ask a few questions to everybody about where we are today. What assessment has the panel done of the unnecessary costs that were imposed on businesses, given the state of the programme? How much more were your customers paying?

***Sir Philip Rutnam:*** It all depends on what the counterfactual is, to use a jargon term. There was a counterfactual in the 2012 business case, but the truth is that it was never realistic.

Q116 **Lee Rowley:** Okay, but the 2012 business case is the baseline, so let us go on the basis of the baseline.

***Sir Philip Rutnam:*** There is a set of numbers in the NAO Report that show what was projected to happen to charges had the 2012 business case been delivered, but it was never going to be delivered. There is also a set of numbers relating to the 2014 business case, because it was soon realised that the programme, as launched in 2012, was not deliverable. Some significant—still not complete and comprehensive—corrective action was taken in 2014, and much more realistic estimates were arrived at. Compared with the 2014 business case, the gap between the charges to customers, as projected then, and now, is quite modest. I am afraid I don't have the arithmetic in my head about what that turns into, in terms of million pounds. Can I make one other point?

Q117 **Lee Rowley:** We will come back to your other points. The number in the NAO Report is £304 million. There are businesses around this country and public sector bodies that have paid £304 million more than was expected, baselined against the 2012 business case. When will you be giving back that £304 million, given that you have a higher than expected surplus in this area?

***Sir Philip Rutnam:*** As I said, the business case in 2012, on the basis of which that £304 million was calculated, was not realistic. It could not have been delivered. On your wider point, the way in which charges are set by DBS involves an annual setting. Essentially, the balancing between costs and income is done on an annual basis. There is no intention to go back over previous years and pass to the customers an accumulated set of savings that could never have been realised.

Q118 **Lee Rowley:** You are disavowing the 2012 business case, but you are running a higher than expected surplus. Therefore, you are in the unusually positive situation—unlike every other Government Department or section of a Government Department—of having more money than you expected. When are you going to give some of that money back to hard-pressed Government Departments elsewhere?

***Sir Philip Rutnam:*** Principally it is because demand has turned out to be higher than expected. I will ask Mr McPherson to speak about fees.

***Scott McPherson:*** When we are looking at fees jointly between us and DBS, each year we seek to set the fee level at a level that will recover their full costs, in accordance with "Managing public money". "Managing public money" itself recognises that there will be circumstances in which fees will over-recover or sometimes under-recover. That may be due to changes in demand or changes in cost base. Both of those things are issues that DBS has experienced. Each year they seek to set a balanced budget. We are very clear that, having had a number of years with a surplus, we need to have a full and thorough review of the fees for the future, which we are planning to do jointly with DBS during the course of this financial year, and ensure that we set the appropriate level of fees. Hopefully having settled a contractual dispute, we will have a real understanding of the cost base for the future.

**Chair:** I want to bring in Sir Amyas Morse.

***Sir Amyas Morse:*** I do not think DBS is in bad shape, either. You have charged £200 million so far on this contract. You must have made a profit in excess of £20 million, and you are still getting paid today. Notwithstanding the talk earlier about substantial risk transfer, I am finding it a bit difficult to see what the risk transfer has actually been. It sounds like you are on quite a good deal at the moment. I understand why you want to extend the contract, but I want to understand how much pain you have shared so far and how strong a position you are in, in terms of negotiating, given that you have actually got a lot of money.

***Shankar Narayanan:*** The NAO has provided a view as of March 2017. It has reported that we made a profit of £5 million on the basis of £150 million-odd in revenues, so at that point in time, the proportion translates as about 3%. Since then the position has worsened. We are in the fourth year of the contract, and as the permanent secretary pointed out, the contract has been structured in such a way that the recovery of the costs for TCS towards transition, transformation and modernisation stops at the end of the third year of the contract. Therefore, at this point in time, we are being paid only for providing the services, and the cost of modernisation is being borne by us. So the position has significantly worsened since March 2017.

***Sir Amyas Morse:*** So are you still in profit?

***Shankar Narayanan:*** We are not in profit at this point in time.

***Sir Amyas Morse:*** You are saying that you have spent more than you have received on this contract?

***Shankar Narayanan:*** Absolutely. What we expect is that the outcome of the negotiations will give us some relief that puts us in a better position than we are in today. It is therefore in our interest to do whatever it takes to deliver the modernisation at the earliest point, so that we can get together better with DBS.

Q119 **Lee Rowley:** I would like to pick up a couple of points that Mr McPherson made. I am intrigued by your statement that you are now going to review costs. It is not like this massive surplus has come out of thin air. It has been accruing over a number of years, so why have we chosen only to look at the surplus and cost model now, rather than while the benefits of the cost model have been accruing over a number of different financial years?

***Scott McPherson:*** We and DBS have looked at fees regularly in the past. We do that on an annual basis when we are setting the budget.

Q120 **Lee Rowley:** But there has been no change to fees in the last few years?

***Scott McPherson:*** There haven't been changes to fees.

Q121 **Lee Rowley:** But your surplus is still there. So if you had been looking at it, you would have changed it. If your objective was to put those two things more in balance, you would have changed it by now.

***Scott McPherson:*** At the beginning of each year, we would look at forecast costs and forecast income from the fees with the aim of setting a balanced budget, so that DBS neither makes a surplus nor a loss. It is extremely difficult to do that in a business where two factors are at play. One is the level of demand, which is quite hard to predict; in fact, demand has increased, which means that DBS gets more fee income than might otherwise have been expected. The costs are also very difficult to forecast when you are in the middle of a modernisation programme. Those twin factors are reasons why, in the past, despite having set a balanced budget at the beginning of the year, by the end of the year we have found that a surplus has been made.

Q122 **Lee Rowley:** So we are accepting that there is an inability to model. On that basis, if you can't model it—that is what I inferred from your statement—you would hand the outturn back when it was over the surplus. So why aren't you handing the outturn back?

***Scott McPherson:*** I wouldn't want to give you the impression that we can't model. We can model; it is just difficult when it is something that is based on public demand. At the end of the year, if a surplus is made, that is consolidated into the Home Office accounts.

Q123 **Lee Rowley:** But not back to the people who have paid it?

***Scott McPherson:*** No.

Q124 **Lee Rowley:** I was intrigued by your statement that every year we set a fee level where it will recover its full cost. But that is not correct, is it, because the update service does not recover anything like its full cost in fact; it's less than half?

***Scott McPherson:*** What I was trying to say is that, overall, you will look at the overall level of fees that DBS is charging for its service, and its overall expected cost, with the aim of setting a balanced budget for DBS as a whole for that financial year.

***Sir Philip Rutnam:*** The fees and charges guidance from the Treasury allows for a certain measure of cross-subsidy, and there are other cross-subsidies. For example, volunteers are issued with certain types of certificates for free.

Q125 **Sir Geoffrey Clifton-Brown:** Sir Philip, in 2012 your Department was instructed by the Treasury that this contract was to be let on the basis that the IT was to be kept in the cloud. By simply not communicating that to the TCS, the cost was £9.4 million. Was that not a pretty big oversight on behalf of your Department? Or £9.7 million; the amount is shown on page 22, figure 7.

***Sir Philip Rutnam:*** I think the instruction came from the Cabinet Office rather than the Treasury. It was the Cabinet Office's role in relation to oversight of the Government's IT programmes. I do not know whether one can safely say that the delay in passing that information on was the cause of that extra cost—the £9 million. It is possible that if one had passed the information on earlier, there would still have been significant costs. However, I too was surprised to learn that there was a delay in passing that information on to the suppliers.

Q126 **Sir Geoffrey Clifton-Brown:** Having not passed it on in good time, there were then two additional costs relating to exactly the same matter in that table: an additional £5 million, and an additional £5.1 million. The total cost is a pretty shocking £19.8 million.

***Sir Philip Rutnam:*** When I was talking earlier about lessons to be learned from this episode, I think I specifically mentioned hosting and the series of events in relation to hosting, whether on physical or cloud servers. Clearly, it is not a satisfactory position.

Q127 **Sir Geoffrey Clifton-Brown:** And that did not even take into account the £19 million on page 23 that the Home Office incurred, so that was a total of £38.8 million wasted.

***Sir Philip Rutnam:*** I think that £19 million is the estimate that was made of the cost of using physical servers. That is not an additive £19 million, it is an alternative. It is, if you like, the £19 million that we were trying to save, but we did not save.

Q128 **Sir Geoffrey Clifton-Brown:** Moving on quickly, because I am under pressure from the Chair, this got off to a bad start, didn't it? Why did the Home Office let the contract in 2012 and then allow Capita to continue for another two years, costing £71 million—figure 8, page 26?

***Sir Philip Rutnam:*** I can only say that, on the basis of what I have learned about this episode through the NAO's work and through discussion with teams in the Department, it was not planned adequately. The risks involved in this very complex modernisation programme were not sufficiently scoped. That would be my headline message.

Q129 **Sir Geoffrey Clifton-Brown:** I have two more quick-fire questions. If you look at that same figure—figure 8, on page 26—you put great store in the 2014 review, having got matters much more correctly costed. In fact, that figure shows that you have got only halfway there. There is still another £100-odd million worth of overruns even from the 2014 review. Surely after two years' experience of the cost of operating the contract, the Home Office should have got a little more adept at working out what it was going to deliver?

***Sir Philip Rutnam:*** I think what I said about the 2014 review was that it made a significant step. It was not a complete recognition of the challenges involved in the programme, but it was a significant step. In fact, I was referring more to the profile of charges on figure 12, for example.

I take the point in relation to projected costs of the entire programme. However, it is important to remember that those costs partly reflect the characteristic of demand. It has turned out that customers have preferred to use standard and enhanced certificates rather than the update service. Remember that those do provide customers with a somewhat different thing. They get additional—

Q130 **Sir Geoffrey Clifton-Brown:** One final question: this contract was let for five years, and ends in 2019. There is an option to renew it for another three years. Are you likely to take that three-year renewal, in the light of what has been said today and in this Report?

***Sir Philip Rutnam:*** DBS, which is the customer, supported by the Home Office, is in close commercial discussions with our supplier. I have to say that whether there is an extension will depend on whether the outcome of those discussions is satisfactory in terms of protecting taxpayers' interests and delivering the safeguarding objectives. Adele might want to add—

Q131 **Chair:** Sir Philip, I think we would just ask that you write to us with the conclusion of the negotiations as soon as they are over. We reserve the right, of course, to call you back to explain that. Certainly, we reserve the right to call TCS back and Mr Narayanan, to get your answers to the questions that you feel unable to answer today, because this is absolutely vital for future contracts.

Can I move on, Sir Philip? As Mr Rowley said, you have disavowed the 2012 contract. You have just acknowledged that the 2014 contract was a problem. You look a little embarrassed about the failure of this contract. It is another IT project failure in a Department that you became permanent secretary of less than a year ago. Are you not rather worried about the capability of your Department to let these large contracts? We have been looking at ESN and E-borders as other examples of projects that have gone wrong in the Home Office.

***Sir Philip Rutnam:*** Can I just go back to—we will absolutely write to you—the likely timing of that? My colleague from TCS mentioned a month. I think it will take some time for us to resolve the commercial issues. I offer that I suspect we will be able to write to you before the summer recess, but I want to be confident that we get a commercial resolution that will last.

Q132 **Chair:** I don't think we held it down to a month, but we would like to know as soon as possible. If we have not heard by the summer recess, we may well chase you for progress, but if you tell us in advance, it saves us having to chase you.

***Sir Philip Rutnam:*** On your wider point about the Home Office, I think there are many excellent projects that are being delivered by the Home Office and are being delivered in a way that fits within a framework of time and cost. We have good engagement—

Q133 **Chair:** Okay. You are talking about the good ones, and of course you want to parade anything good. I could get waylaid and ask you to detail them, but what I am talking about today is this particular contract. I think Mr Rowley has highlighted very effectively that there were a number of problems, and you have agreed with a lot of that concern. I do not think anyone is saying that the NAO is wrong and that things did not go wrong, but this is on top of ESN, which we have now seen you about a number of times, and other contracts. Are you not concerned about the capability of the Home Office to let these large IT contracts effectively?

***Sir Philip Rutnam:*** Of course I always want any organisation I am in—certainly one I lead—to be better.

Q134 **Chair:** I am giving you the chance here, Sir Philip, as what could be called a new permanent secretary, or a long-standing permanent secretary—sometimes one year is long-standing in the civil service—to now say that you recognise the problems and you are going to do something to change it so that it does not happen again. We are giving you an opportunity.

***Sir Philip Rutnam:*** And I am trying to give you a positive answer, because I recognise the question. I think the question is valid, and I am trying to give you a positive answer that I recognise the challenges without sending a message that is negative about the many good things happening in my organisation.

Yes, there are some common themes that are coming through on ESN and on this programme. There are common themes on the underestimation of complexity and not doing enough at the planning phase to understand and scope out the inherent complexity and the risks and to understand how to get the governance right. There is underestimation of the complexity of the stakeholder and customer landscape we work within. Another theme is not doing enough to engage customers early on and take their views sufficiently into account. There are a number of common themes. You make a point about the Home Office, but you can say that they are common themes or causes of major programmes going awry in the UK public sector and, indeed, the private sector and worldwide. There are some common themes.

Already in the Home Office we are attending to those sorts of points. The governance is stronger in the Home Office. The governance and scrutiny of major programmes is markedly stronger than it was in 2012. The capability around project and programme delivery is also markedly—

Q135 **Chair:** Can I ask specifically what you have personally done when you have seen these project failures to try to stop them happening again? Have you implemented any changes since you arrived?

***Sir Philip Rutnam:*** Yes. I have put additional emphasis on developing the programme and project management profession. I have strengthened and simplified governance within the Department. I have strengthened the management information and management reporting. I have done a number of things to make very clear within the Department the importance of getting our major change programmes right. It is a work in progress, but I am very clear that the Home Office—we are not the biggest Department in Whitehall in terms of the number and scale of the programmes we have, but actually they are at least as complicated as any other, not least because of the stakeholder dimension.

Q136 **Chair:** And critical, as we have highlighted with ESN. Could you tell us of any other programmes that you are worried about that are in a similar state to these particular projects? Do you have any programmes where you have worries that there was a problem at the earliest stages of scoping and letting the contract that you are now firefighting on, other than the two we have mentioned?

***Sir Philip Rutnam:*** No, there is no other programme on which I am, to use your phrase, "firefighting" in the same way as the programmes you have mentioned. The programme I am personally devoting most time and energy to is ESN, which is by an order of magnitude the largest in the Home Office. I think that, on this programme, we have not really had an opportunity this afternoon to bring out the positives it is already delivering, but it is delivering positives. I think that this programme, with a resolution of the commercial issues between us and TCS, can be brought round to deliver some very significant benefits.

Q137 **Chair:** But as Mr Rowley has pointed out, and as the NAO has pointed out, it is quite late in the day and costing more. I want to move on. You talk about service users. One of the reasons for the problem is that there was bad forecasting of the demand of the update service—the online service. How did you get that so badly wrong? There was no modelling done, for example. Why not?

***Sir Philip Rutnam:*** My own reading of the situation is that not enough was done to understand customers and customer appetite for the service. In particular, it seems to me that the fact that this is a service that is paid for by employees or prospective employees, when so far as other disclosure certificates are concerned they are principally paid for by employers, creates a different sort of price point, if you like. That seems to me to be a major factor, and I think there could have been more customer research.

Q138 **Chair:** Adele Downey, you were, to a degree, around at the time. What is your explanation for why there was no real understand of the uptake of the update service?

***Adele Downey:*** There was some early work done through roadshows, talking to employers to find out whether they would be interested in the update service, and there was some interest in what the update service was going to be able to provide at the time. We could have done more. I think there could have been more done about that. So when we revised the business case in 2014 we also revised the uptake and we are now tracking almost identical to that after four years. We have 1.2 million users, who are finding it useful, with more than 70% renewal and a 92% satisfaction rate following our Ipsos MORI survey last year. It is delivering against the policy intent. It is an optional, voluntary product, so employers do not have to use it. I think the safeguarding environment has changed over the last five or six years and has made employers more cautious, so even though we have 1.2 million users of the update service we also have seen a significant increase in those who are applying for enhanced disclosures at the same time. There isn't necessarily a correlation between the two. We intend to do a lot more research this coming year, so that we can get more insight into what employers would like from this service as well as the individuals.

Q139 **Chair:** Can you tell us exactly what sort of practical steps that research will take? You said you did roadshows before. That sounds a bit vague. Perhaps that is unfair. What are you practically and precisely going to do?

***Adele Downey:*** We have three regional events planned, and a number of focus groups so that we can talk to individuals. We have done a—

Q140 **Chair:** You say regional events. Who are you going to invite to those regional events? Will it be registered bodies?

***Adele Downey:*** Yes. It will be potential employers and employers who may not be using it to a great extent at the moment, as well as those—

Q141 **Chair:** When you say potential employers, schools, for instance, would be an employer, but I imagine that most schools at the moment would not have a member of staff free to send, with all due respect, to a DBS roadshow. It would be time out of the classroom—

***Adele Downey:*** It would be more to do with regulatory bodies. At the moment, it is not mandated by any of those regulatory bodies so Ofsted will be invited and we will discussing that. I have recently recruited a director for safeguarding and established a safeguarding directorate, which will enable us to get out and speak to our customers more easily, to explain the advantages of the update service and to see how people will use it in the future. We need to balance that with the cost, as Mr Rowley mentioned, and that will be part of our product review this year.

Q142 **Chair:** So you are considering changing the cost of the service?

***Adele Downey:*** We are planning to do a product review to have a look at how we can address the imbalance between the two products.

**Chair:** I think there is a lot more to get into there. I am going to ask Anne Marie Morris to delve deeper.

Q143 **Anne Marie Morris:** We are now in a position with an update service, which is probably not very well understood and probably not as well used as it should be, and it has certainly not met the overall target as to uptake. I hear what you have explained to the Chair about ongoing service and so on, but is there some fundamental barrier or something about this service that makes it unattractive to employers, as things currently stand?

***Adele Downey:*** As I have just said, 1.2 million people are using it and there have been over 7 million checks of the information since it has been implemented. It is now reaching the revised forecast that we put in place in 2014. So I would assert that those who want to use it are using it—it is valuable to them. We want to talk to customers and to employers to see whether more people might find it. We have been in discussion, for example, with Save, the new charity that is looking at abuse in football. They are talking to us actively about encouraging relevant organisations involved with football to get their paid employees on to the update service. Thirty-five per cent of the public sector use the update service and over 20% of our users are volunteers, so it has got widespread attraction. Over 60% in our Ipsos MORI poll last year were aware of the update service. We obviously have got a gap there that—

Q144 **Anne Marie Morris:** I suggest, Ms Downey, that it is not really good enough to say that you have met a reduced forecast. That does not really tell me that you have dug down to understand why you have not yet been able to attract, if you like, those who are not obvious targets. I am trying to get you to look more deeply as to why. Let me give you one possible suggestion. Is it because people feel psychologically safer with a piece of paper, which is a certificate, and they feel somehow that that is a more appropriate thing to have than something you simply put on the screen? Have you actually delved into the psychology, what the various boards of governors' requirements are, what any other regulation bodies' requirement are, that might make the certificates more popular because, despite the expense, they make them feel safer?

***Adele Downey:*** We do plan with our insight and other work that we will do this year to get a deeper understanding of what is happening. Everybody who goes on to the update service has to get an enhanced disclosure at the outset, so everybody has a piece of paper in order to get into the update service at the moment. What the update service does is allow a new employer the opportunity to see the certificate that has been produced and then to go online to see whether there has been a change to it. If there has been a change, they then have the option to ask that individual to go and do another check, which is from our—

Q145 **Anne Marie Morris:** Ms Downey, I understand the potential of what this can do, but given that the uptake is not as high as you originally expected, there has got to be something more to it than you are expressing. You have to look first at why an awful lot of people want a certificate each time.

***Adele Downey:*** I think there is some anecdotal evidence for why the uptake might be lower. Part of that is that, particularly because of the increased safeguarding environment that we are in, some employers would prefer to do the original identity check themselves. As part of getting an enhanced disclosure, the employer is actually evidencing that the person who is applying, in front of them, has got the identity evidence to prove that it is them. When they come to moving jobs, then the new employer has to trust the previous identity check of the previous employer. There has been some anecdotal evidence that some employers may not trust what others have done. However—

Q146 **Chair:** How are you checking to see whether that anecdotal evidence has a basis in fact?

***Adele Downey:*** That is part of what we want to do this year. We want to get more detailed intelligence about why people are or are not using this.

Q147 **Anne Marie Morris:** Isn't it extraordinary that you have only started to look at this five years on?

***Adele Downey:*** We have been talking to customers throughout and did our Ipsos MORI poll last year, which has given us some information, but as I say it has been tracking—it is a voluntary service, so people can choose to do it—and we want to understand, associated with our product review, what would encourage other people to use it more, and how we can build trust in the product.

Q148 **Anne Marie Morris:** Sir Philip, are you not a little disappointed? There is an awful lot of talking and discussing, focus groups and so on, which all sounds very lovely, but it is a bit touchy-feely. In your shoes, I would want to know if something specifically had been done to look at why employers do not use this service. Is it a lack of confidence? What is it you could do to the service so that it does carry the confidence that clearly people are looking for? Given the point that you made earlier about who bears the cost, why not look at who should pay for the update service and whether there is a way of incentivising its use by changing who bears the cost, or at least to try to change the shift of emphasis in the two parties, employer and employee?

***Sir Philip Rutnam:*** I essentially agree. I would put it this way: customer research and customer insight has got to be at the heart of running and developing any organisation. It has been in the past, and I am very clear that the DBS board and Adele as chief executive are putting a much higher priority on this going forward. I would expect—as DBS develops its strategy for the remaining years of this decade and its plans for the 2020s—to get good up-to-date customer insight and research as a core element of decision making. It is complex because you have multiple parties: you have the employee, prospective or actual; you have the employer; and you have the intermediary bodies for registered organisations.

**Chair:** 'Twas ever thus when the CRB existed. It was exactly that. The vetting and barring scheme brought in other lists, but ultimately it did not change the procedure when it became the DBS.

Q149 **Anne Marie Morris:** What deadline have you given Ms Downey to come up with a conclusive answer with her focus group so that you can actually change the system to deliver what it is supposed to deliver?

***Sir Philip Rutnam:*** I haven't given a deadline to Ms Downey. This is the subject of continuous discussion. It will definitely be relevant to the review of fees this year and to the business plan as it is developed for 2018-19, but even more, I suspect, 2019-20.

Q150 **Anne Marie Morris:** We're moving some way, but where is the incentive for an individual to pay for an update when they know the employer will say they want a certificate?

***Adele Downey:*** I've said before that we have got 1.2 million users of this. The primary purpose of this product helps people who move around employment frequently. We have a number of people who have traditionally got two or three disclosures in one year, and this product enables them not to do that. The renewal rate of over 70% would suggest that they are finding it useful, and there are employers using it. I believe it is a valuable product. It is useful to those using it and it is being accepted by some employers.

What I do recognise is that we can do more, and we will do more, to get other employers to understand the benefit of this and to persuade them they can actually trust the product. We will be able to use people who are already using the system to support that aim.

Q151 **Anne Marie Morris:** But given what you have said about the safeguarding issue, how on earth will you get employers to ever move away from asking for a full certificate?

***Adele Downey:*** At the moment, the update service user rate is rising. By the end of the next financial year we expect that we will have about 1.5 million users. It is heading up to 1.3 million. We are getting new users every year and we are also getting renewals every single year.

Q152 **Anne Marie Morris:** The employment rate is going up, so you would expect it to go up, but it is certainly not going up fast enough to be anywhere close to your original projection.

***Adele Downey:*** No, but it is close. Well, it is tracking exactly to the projection we had four years ago. What I'm saying is that, as part of our product review, we will talk to customers and get a greater insight so that we can ensure it is available to everybody who will find it valuable.

Q153 **Chair:** Did you do any comparisons with the online immigration work-checking system for employers, where the employer can check? They can ring the Home Office on the hotline and get a check on someone's status, rather than the individual having to give permission.

***Adele Downey:*** The update service was predicated on it being the individual's information. It is very sensitive information for some of them, particularly those that have information actually on the certificate. The Protection of Freedoms Act 2012 introduced the single certificate, so the data is owned by the individual and therefore they have to give permission for whoever can have a look at that information. That is the current legislation, and the service has been implemented according to that legislation.

Q154 **Anne Marie Morris:** What are you going to propose, given the information you have so far, for how this product might be changed? I know you will have more conversations, but it seems to me that you must already have quite a bit of knowledge, given the dramatic fall from your original anticipated uptake. What had you already started thinking about doing, in terms of changing the service, to improve the uptake?

***Adele Downey:*** There are a number of things we are looking at. Once we do the product review, we will develop a marketing plan associated with that, so that we can target and speak to the right people to encourage the use. That is part of our thinking. We will also discuss with users and potential users what changes might be helpful in legislation, because we are here to implement the policy and legislation of the Government. Providing we stick within that, we will talk to customers to see how we can help them to use the system to best effect.

Q155 **Anne Marie Morris:** Ms Downey, we are already pretty clear that the issue is safeguarding, as you have said. You know what the law is on safeguarding. What proposals do you have to amend the system to deal with those particular safeguarding concerns? What you are describing will never deliver on the timeframe that Sir Philip has outlined.

***Adele Downey:*** It was never intended to be a safeguarding product. It was intended to provide an option for individuals, to help them to move around the labour market faster, and to help employers to make a faster recruitment decision, because they would be able to instantly check the status of somebody's certificate and then make a decision to employ.

Q156 **Anne Marie Morris:** But with respect, Ms Downey, this is a safeguarding tool, given the two agencies that were put together. This is an absolutely key part of headteachers being sure that, when they employ teachers, they meet all the safeguarding requirements.

***Adele Downey:*** They do that through the enhanced certificate, which provides them with that information. If somebody applies for a job with them and they have an update service subscription, they will be able to present their existing certificate, which a headteacher can check online. As I say, we have more than 34% of public sector users that actually use the service. There have been over 7 million checks.

Q157 **Anne Marie Morris:** But 34% is not very high, is it?

***Adele Downey:*** Thirty-four per cent of the users are public sector.

Q158 **Chair:** When you say the user, do you mean the employer?

***Adele Downey:*** The individuals who are subscribers are public sector.

Q159 **Chair:** Do you know what sectors those individuals work in?

***Adele Downey:*** Not to hand.

Q160 **Chair:** Can you write to us with that?

***Adele Downey:*** I will.

Q161 **Chair:** It seemed to us, when we were preparing for this, that institutions will have their own procedures in place to, for instance, demand a physical certificate. Unless they change those procedures, you will not get very far with this. Have you looked into that?

***Adele Downey:*** As I said before, it is not a service that is mandated by regulators, so part of our discussions will be with regulators about how it can benefit faster recruitment decisions for them. That will be part of our conversations.

Q162 **Anne Marie Morris:** Mr McPherson, you looked like you wanted to come in and add something on this.

***Scott McPherson:*** I did. Ms Downey has actually made some of the points I was going to make. I was just going to say a couple of points in relation to update. You referred at one point to missing a target. I should be very clear that the projection made in the original business case wasn't a target. The intention of introducing the update service was very much in response to public demand for a new product that enables them to have portability for their certificates. That is why the service was introduced.

As I think Philip has already said, although the original estimate for the level of uptake was based on some limited research, it was very much an estimate or a forecast. The fact that not as many people have taken it up is itself very good evidence of the level of demand that there actually is out in reality and about how many people might take advantage of this service. It provides benefits to both individuals and employers, in terms of speed and cost.

As Ms Downey was explaining, it was not originally intended to be for a safeguarding benefit, because from an employer's perspective, you can have adequate safeguarding either through getting a standard or an enhanced certificate, or through making use of the update service. The benefit of update is essentially speed and cost.

Q163 **Anne Marie Morris:** Can we now take this to the next stage and maybe look at the overall outcome of all this? At the end of the day, the plan was to deliver financial and safeguarding benefits. We have pretty much hammered the financial benefits, and it is pretty clear that those have not been realised.

However, on the safeguarding benefits, how are we actually tracing the benefits that your process is delivering? Let me put it like this: are you actually looking to see whether recruitment decisions are being better made than in the past? Are we seeing fewer teachers with inappropriate records being recruited and then having to be dismissed? Where has the benefit of this service been to ensure we actually get, in the case of schools, safer classrooms?

***Scott McPherson:*** Clearly, safeguarding the public—particularly vulnerable children and vulnerable adults—is the reason this whole regime exists. That is absolutely the priority for us, but it is also really important to remember the role that DBS and disclosure and barring play within a much broader safeguarding system. The primary role of DBS is to provide information to the employer. It is clearly right that the employer is in the lead in making sure it has adequate safeguarding procedures in place. The employer is best placed to decide whether an individual should be employed in the particular circumstances of a job, because it has much better information. The employer is also able to put in place a much broader safeguarding environment, so it has policies and procedures in place to make sure not just that adequate checks are made at the employment stage, but that safeguarding is in place throughout the employment of an individual. So it is primarily the responsibility of the employer.

Q164 **Anne Marie Morris:** Clearly it is primarily the responsibility of the employer, but you are trying to produce a product—a service, if you like—that will help them to deliver all that. If you are not actually looking at what is happening in those schools—let's take schools, because they are the most obvious example of where this is going to be important—what else are you going to look at to measure how successful your tool has been on the safeguarding front? While it is primarily the responsibility of the employer, one of the benefits of doing what you have done and spending public money is to ensure that we actually have a safer collection of teachers in the classroom. How are you measuring it?

***Scott McPherson:*** Clearly, there are some of the key measures that we use—some of the statistics have already been quoted—around the number of disclosure certificates issued and the number of people on the barred list, but it has never been the role of the Home Office or the DBS to go into schools or hospitals and investigate what they are doing as a result of those decisions. Clearly, there are regulators in those sectors—Ofsted in relation to schools and the CQC in relation to the healthcare sector—that do go and look at safeguarding practices in schools or hospitals to make sure that those policies and procedures are in place, that they are actually being implemented in practice and that the employer is gathering all the information it should at the point where it is considering employing someone. That is partly the disclosure checks that DBS provides; it will also be references from previous employers, for example. It is those regulators in those two sectors that are looking at whether their safeguarding is working in practice in schools, hospitals and other care environments.

Q165 **Anne Marie Morris:** Do you talk to Ofsted and other appropriate regulators to ask them to what extent your system has been part of the success or failure in the schools that they assess?

***Scott McPherson:*** We in the Home Office do regularly have discussions of the kind you are talking about. That is done primarily through the Departments—the Department of Health and Social Care and the Department for Education—rather than by talking directly to the regulators, but clearly our colleagues in those Departments are regularly having those conversations.

Q166 **Anne Marie Morris:** When you say "regularly having those conversations", do you mean just by the coffee machine or something a bit more regularised?

***Scott McPherson:*** No, it is not by the coffee machine. It will be in meetings with counterparts in other Departments and through correspondence. The people who work for me who are much more closely involved in the detail of this will have phone calls or—

Q167 **Chair:** How do they feed that back to you? Obviously, you hold the ring in the Home Office for this. If there are concerns, are they fed back to you?

***Scott McPherson:*** I have not had regular updates from my team about the conversations they have been having with their counterparts. It is very much part of their responsibility to fulfil the obligations that we have set out for them to talk to colleagues in other Departments and make sure that these issues are being discussed.

***Adele Downey:*** I just want to support that position. The majority of people who apply to us are good, honest, hard-working people, and we issue information on about 6% of certificates for employers to make those decisions. Without us being able to provide that information, employers would not have that information, so we do provide an absolutely valuable service to safeguarding by providing information to employers they would not otherwise have.

I am sorry to keep referring to the Ipsos MORI survey, but last year 90% of our customers said that we make a difference to public safety. That was individual customers as well as employers. We have very close relationships with major employers. We have 2,000 registered bodies, which include employers, and 300 of them account for 90% of those, so we are able to have some direct relationships with them to make sure that they are carrying out their duties in accordance with the code of practice. I do not know whether anyone on the Committee saw the article that was published this weekend, following an FOI to DBS, about the amount of information released on teachers and people who want to work in classrooms, and how much information was provided to schools to enable them to make the decision not to employ those teachers. I believe we provide a very strong safeguarding role, but, as Scott has said, it is part of a broader regime, which involves the regulators and the employers, and the information that we supply to them.

Q168 **Anne Marie Morris:** Can we turn to the duty of care to the employee? We have had an interesting report from Unlock, which Mr McPherson knows, from the nod of his head. Their concern is that information about them—as Ms Downey said, it is their data—sometimes gets disclosed inappropriately. It seems that nothing is done to check that or stop that. Does Mr McPherson have any comment on that? Clearly, it is damaging for an individual to have spent convictions disclosed, when we are in a position where that might mean that they do not get a job. By the time it comes to light that it should not have been disclosed, they have lost the job.

***Scott McPherson:*** I can provide a general answer, and perhaps Adele can provide the specifics. The note from Unlock is a really good illustration of the challenges we face in designing an appropriate safeguarding system. There will clearly be some people on one side of the argument who argue in favour of more disclosure, as a way of helping to enhance safeguarding. There will be people on the other side of the argument who will say there should be less disclosure, approaching it as an issue of individual human rights and the rehabilitation of offenders. Clearly, designing a system that balances those twin priorities is difficult.

Various Administrations over the years have taken different judgments about the intrusive nature of a safeguarding regime. In particular, after the 2010 general election, the Protection of Freedoms Act made a shift in the nature of disclosure. In terms of individual cases as highlighted by Unlock, Adele is better placed to answer.

Q169 **Anne Marie Morris:** Before Ms Downey comments, I hear what you say, but my understanding is that whatever the law is—whoever made the last law—it is your duty to comply with that. So it is not about the fact that some will take one view and some will take the other view. You should be ensuring that the law is implemented, and the Unlock report indicates that it is not.

***Scott McPherson:*** I completely agree that once Parliament sets out a statutory regime for what should be disclosed in relation to individuals and the types of offences they may have committed in the past, taking into account the provisions in the Rehabilitation of Offenders Act for how long convictions are spent or unspent and the filtering rules that came into place relatively recently, clearly it is very important that the DBS complies with those statutory laws and only discloses the information that should be disclosed in a particular circumstance. The evidence is that DBS has an extremely high accuracy rate—I think it is 99% or something like that for the accuracy of their disclosures—but from our perspective, we would want them to make sure that all the certificates are accurate.

***Adele Downey:*** One of the implementations from the Protection of Freedoms Act, about giving the individual ownership of their own data, also introduced the single certificate. That was to enable an individual to dispute information on their certificate that they did not agree with and wanted us to review and consider before it was reissued to them. We have a very tiny amount of disputed certificates—less than a quarter of a per cent., against the 4 million certificates we issue every year. We have implemented the filtering regime in accordance with the requirement and the list that we were given, which has enabled a lot of convictions to be filtered off people's applications that were not previously. We will comply with any future changes and amend accordingly. Ones that are retained, either because they suggest a pattern of behaviour or because they are considered serious enough for an employer to consider as part of their consideration, have remained on the certificate.

***Sir Philip Rutnam:*** Can I comment on that briefly?

**Chair:** Very briefly.

***Sir Philip Rutnam:*** I agree that the report from Unlock was very interesting and helpful. It also seemed to bring out the question of what type of certificate can be requested for what sort of role—the eligibility test in the law. There is significant guidance on that on the DBS website, and I believe it is the subject of continuous discussion with the relevant regulators and employer bodies, but, of course, more can always be done. That seemed to me to be the striking point from the Unlock report.

Q170 **Anne Marie Morris:** I am reassured by what you are saying, Sir Philip; it sounds like you have this under control. Have you introduced any trigger safety points to make sure that no information that should not be disclosed is not disclosed?

***Adele Downey:*** I think the key is that the individual has an opportunity to come back to us to tell us that they think that we have disclosed incorrect information on them. Ultimately, it is for the police to decide what information is released, as they deem fit. In relation to relevancy to the role that an individual has applied for, they choose what is released, not DBS. We take all matters of dispute seriously, and we will pass those on to the police and then give a final decision to the individual, so that they have ownership first before any employer sees the dispute.

The eligibility tool that Sir Philip was talking about has been recently introduced. It is a complex area around eligibility and I think that some employers are using it when perhaps they should not. People are finding the eligibility tool very useful, but our engagement with our registered bodies has part of the compliance check with them. We talk about eligibility; we take it very seriously, and we have removed registered bodies from our system where we believe that they have been doing ineligible checks.

***Sir Philip Rutnam:*** One additional important stakeholder is the existence of an independent monitor, to review the more intelligence-based information released by the police in the case of complaints. So there is independent scrutiny available for that.

Q171 **Anne Marie Morris:** That's all good. It sounds to me like you are moving in the right direction. Can we move on a little bit? With regard to the rights of the individual, what do you feel your duty is to an individual who has had information disclosed inappropriately?

***Adele Downey:*** If we have released information inappropriately, we will take that very seriously. If the police agree with that situation, the information is removed from the certificate and the new certificate is provided. We provide information based on the current filtering rules and what we can do from a legislative perspective.

Q172 **Chair:** How often do you make that mistake? How often have you had to reissue a certificate?

***Adele Downey:*** As I say, we have only had disputes on a quarter of a per cent on the 4.3 million.

Q173 **Chair:** So how many have there been as a result of a mistake made by DBS, where you have released something that should have been filtered out, by mistake?

***Adele Downey:*** I don't know the exact number.

Q174 **Chair:** Could you write to us?

***Adele Downey:*** Yes, I will. The information is not DBS's information to provide or not to provide—that is a police decision. Sometimes, the individual may not agree with the police's decision to release the information. They will release it because they think it is relevant for the employer to consider before they make a decision whether to employ that person.

Q175 **Anne Marie Morris:** Ms Downey, as you say, you sometimes make mistakes. Are you then liable for the loss to the individual who has lost his or her job?

***Adele Downey:*** We are responsible for upholding disputes if we have inserted somebody's name incorrectly or have the wrong date of birth—that sort of thing. That is what we are accountable for. We are not accountable for the information that the police choose to put on a certificate.

Q176 **Anne Marie Morris:** I understand that entirely. There is a position where the police agree that information should not have been on the certificate. Where does that leave the individual in terms of any recourse for compensation?

***Adele Downey:*** The process for dispute is quite swift. We will issue somebody with a new certificate, but if an individual can provide evidence that this has prevented them from gaining employment, we will consider that.

Q177 **Lee Rowley:** I want to come back to the updates, to make sure that I understand some of the points that were made a moment ago. Ms Downey, you were talking about how, when you go out and look at customer behaviour in the coming months, perhaps this would benefit people who moved around two or three times a year. Yet, the numbers that somebody has sent us suggest that the number of people who move around two or three times a year is less than 0.2% of the total population who requested or had some form of interaction with you. Where do you think you are getting your additional customers from?

***Adele Downey:*** My information tells me that out of our 4.3 million applications, 10% of people have applied for more than one certificate in a single year. If 10% of 4.3 million is 430,000, that is in the ballpark of the additional subscribers we are getting each year.

Q178 **Lee Rowley:** Would you agree that it would not be cost-effective for those individuals to move to the update service on a per-user basis if it was £44 every couple of years rather than £13 every year?

***Adele Downey:*** The £44 is paid by the employer, and the £13 tends to be paid by the individual.

Q179 **Lee Rowley:** So there's no incentive whatsoever for the individual to sign up.

***Adele Downey:*** The individual has a benefit because they can move round more quickly. We find that a lot of people from the care sector, who move jobs quite regularly, benefit from the certificate—1.2 million are clearly benefiting from it.

Q180 **Lee Rowley:** But that number is very small—10% or less. Actually, for the numbers you were talking about, it is under 1% in terms of volume.

***Adele Downey:*** It's 10% who have more than one certificate in a year.

Q181 **Lee Rowley:** And 0.17% have up to three or four.

***Adele Downey:*** Okay.

Q182 **Lee Rowley:** Can I ask a question about unit cost? Is growth in demand, as you were outlining, a dependency on reducing the loss you make on each unit cost in the update service?

***Adele Downey:*** Can you ask me that question again, please?

Q183 **Lee Rowley:** Sure. Do you need more people to use the update service to reduce the loss you are making each time the update service is utilised?

***Adele Downey:*** There's no real correlation between the two. They are costed independently, and at the moment there is an element of cross-subsidy from the enhanced disclosure to cover the loss within update service. Part of our review is going to have to be considering how we redress that balance.

Q184 **Lee Rowley:** So demand is not a function of the unit cost. Increased demand won't improve the loss you make on each individual customer.

***Adele Downey:*** There are some elements at fixed cost, clearly. That will be spread across more users. Every time we work out the unit cost on an annual basis what the fee should be, we take into account our predicted demand for the current year. We operate on a break-even basis as an organisation; we don't plan to make a surplus.

Q185 **Lee Rowley:** Is it an objective to break even on a per-product basis?

***Adele Downey:*** Ideally.

Q186 **Lee Rowley:** So how will you move from a £22 unit cost to a £13 unit cost?

***Adele Downey:*** That's going to have to be part of the product review to work out how we are going to do that.

Q187 **Lee Rowley:** Do you have any views on that at this point?

***Adele Downey:*** Not at this point.

***Sir Philip Rutnam:*** The fees and charges guide from the Treasury does allow some scope for cross-subsidy.

**Chair:** You've covered that before, so we know that. Mr Rowley, let's have the last couple of questions.

Q188 **Lee Rowley:** Would the original, disavowed 2012 business case have stacked up on the basis of the revised numbers for the update service—1 million instead of 3 million—and the additional costs that we have accepted that at least a portion are attributable to?

***Adele Downey:*** Without actually doing the calculation, it would have been a different number at the end, and it may not have done.

Q189 **Lee Rowley:** So when you tell me as a collective that you have learned from these things, how can I have confidence in that if you don't know the answer to that question?

***Adele Downey:*** We've learned about more realistic projections, which we have applied to the update service. We've learned not to go big bang, and the latest implementation of the modernisation programme is not big bang. Because I run a service, I will not allow the implementation of the next phase unless I am satisfied that it will not disrupt the safeguarding service that we provide. We have learned from that perspective as well.

Q190 **Lee Rowley:** But as of right now, you haven't learned whether your hurdle rate would have been passed on the basis of the revised projections that you put into the business case four years ago.

***Adele Downey:*** I have not gone back and put the current projections into the business case, no.

**Lee Rowley:** Okay, thank you.

Q191 **Sir Geoffrey Clifton-Brown:** Sticking with you, Ms Downey, if I may, we have had evidence from the NCVO—the National Council for Voluntary Organisations, which represents 13,000 members. It says: "At present, a volunteer must register for the update service as a separate step… It is suggested that applications for the update service should be included as part of the original application. Alternatively, organisations could sign people up to the update service…instead of the onus being on individuals." Have you considered any of that?

***Adele Downey:*** The NCVO is a very respected organisation, and we will be engaging with them. My director of safeguarding will be engaging directly with them.

Q192 **Chair:** Have you considered this particular proposal?

***Adele Downey:*** The ability to link it to the original application as part of the modernisation implementation for the next phase has already been considered. When the next phase is implemented, an individual will be able to apply for the update service at exactly the same time as getting a certificate, which they cannot do now—there is a lag. Allowing an employer to pay will be something that we will be able to consider, and we would welcome further conversations with the NCVO on that matter.

Q193 **Chair:** Can we clarify that volunteers get the certificate for free?

***Adele Downey:*** Correct.

Q194 **Chair:** There is no cost to the individual or the employer, so the same would go for the update service.

***Adele Downey:*** Correct. At the moment, something like 22% of volunteers are free in the main disclosure product, and we have about 20% of volunteers in the update service.

**Chair:** I just wanted to check that the policy would be ongoing that volunteers get it for free from the outset.

Q195 **Sir Geoffrey Clifton-Brown:** I'm glad you say that they are a respected organisation, because they are quite critical of you. They say, "Communication from the DBS is poor…There is a lack of clarity over the roles and activities that need disclosures…The requirements of paper-based identification documents acts as a barrier". Will you be engaging with them over those criticisms?

***Adele Downey:*** Yes, and I think that some of that indicates the issues over eligibility, and the complexity around people understanding whether they should be, or are, entitled to a disclosure certificate. We are talking to organisations so that we can refine the eligibility tool, so that we can help people to understand as much as possible what the entitlement is or is not. That is with individuals, as well as with employers.

Q196 **Sir Geoffrey Clifton-Brown:** Thank you for that. In answer to my colleague Ms Morris, you said that disputes account for only 0.25% of the 4.3 million applications. By my maths, that still amounts to about 10,000 disputes. Of those 10,000, how many actually result in new certificates being issued?

***Adele Downey:*** I think I said that I would come back to the Committee on that.

Q197 **Sir Geoffrey Clifton-Brown:** Ms Morris also referred to the evidence from Unlock. They say, "Over 70% of convictions included on enhanced DBS checks in 2015 were over 10 years old." You have some guidance in this from the court case challenged by the chief constable of the Greater Manchester force in the court of appeal in 2013. How well do you think the system is working?

***Adele Downey:*** As I think I said before, when convictions that are more than 10 years old are declared it will either be because there is more than one conviction and people think that there is a pattern of behaviour, or the conviction is of such a serious nature that the police consider that the employer should have the information to make that decision. If there are any changes to the filtering regime that is in place following any court considerations later on this year, the DBS will be ready to implement those.

Q198 **Chair:** Just to clarify, does the system still remain that the police will make a judgment about the nature of the employment as well? They might not reveal it for certain employment, but they would for others.

***Adele Downey:*** Since the Protection of Freedoms Act, rather than the role applied for it is the workforce. They will consider them against the adult workforce, the children's workforce, or both.

**Chair:** Right, so it is slightly different now. Thank you.

Q199 **Sir Geoffrey Clifton-Brown:** Sir Philip, I have one last question. Unlock are sufficiently considered about the whole matter that they say, "We recommend that the committee looks at whether the systems the DBS has in place to stop ineligible checks are fit for purpose." Is the Home Office likely to look at that?

***Sir Philip Rutnam:*** We consider that the system is fit for purpose. As Scott was saying earlier, there is inherently a difficult balance in the statutory regime that has been set up. There is an objective of rehabilitating offenders, of protecting privacy, of respecting the human rights of individuals, and of safeguarding the public. We think that the system that we have represents a good balance between those objectives, and is providing information to support safeguarding, day in, day out, right across a very wide array of employments.

Of course, the system can always be made better; one of the objectives of modernisation is to make it quicker and lower cost. However, in terms of the fundamental balance, it has been the view and the policy of the Government for some time that it represents an appropriate, reasonable and proportionate balance between those objectives.

Q200 **Sir Geoffrey Clifton-Brown:** Sir Philip, can I put it to you that one person's information disclosed incorrectly is one too many? How many out of those 10,000—when Ms Downey produces the information—result in new certificates, and how many of those will encourage you to take a look at whether the system is fit for purpose?

***Sir Philip Rutnam:*** I think that Ms Downey said that she would write to the Committee on the question of how many errors there are. My information is that the number of errors is very small. I am not sure that it is as high as 10,000. Then there is the question of what form they take. I don't know whether Adele wants to add anything to that?

***Adele Downey:*** I will come back to the Committee and give you information about the type of disputes that we get, how many of them lead to a new certificate and whether they are as a result of DBS. I need to stress that we have issued 25 million certificates, and 88% of our customers are very satisfied and 90% say that we contribute to public safety.

Q201 **Chair:** It would be helpful, when you write to us, if you have identified any pattern—for example, a particular police force that has made more errors than others. Do you do that when you look at these figures?

***Adele Downey:*** I will.

**Chair:** If you could send that to us, that would be—

Q202 **Sir Geoffrey Clifton-Brown:** Sir Philip, can I just correct the record? I actually said that there were 10,000 disputes. We do not know how many result in new certificates. My question to you was: what number of new certificates will encourage you to look at the system?

***Sir Philip Rutnam:*** We want to keep the error rate in the system to an absolute minimum. A very high quality system is what we expect.

Q203 **Sir Geoffrey Clifton-Brown:** You are still not answering my question. What number will encourage you to look at the system?

***Sir Philip Rutnam:*** The reality is that in any large, complex system you are not going to have an error rate of zero unless you put in enormous and not just very costly, but very lengthy, procedures. Even then you will not reduce the error rate to zero. As you will understand, what one is dealing with in large and complex systems is a set of—you are trying to optimise the system to deliver its objectives. We have set an objective to DBS of running a very high quality system with a very, very low error rate. You have rightly drawn a distinction between that and the number of disputes. There will always be more disputes.

**Chair:** We will look forward to that information from Ms Downey. If there is a pattern—for instance, a particular police force area where there is a higher rate of error—that will help us and, hopefully, you to ensure that these errors do not happen.

I thank the witnesses and the Committee for this session. The transcript will be up on the website in the next couple of days, uncorrected. If you have any corrections, that will be helpful. You have made a number of commitments to write to us—in particular, Sir Philip, as permanent secretary, to let us know when your dispute with TCS is offer. We reserve the right to recall both you, Permanent Secretary, and TCS once that has been concluded. Clearly, as Mr Rowley and the NAO have highlighted, with a subject that has been massively delayed and had a lot of problems, to be in this level of dispute is also a great issue. We want to find out what has gone wrong so that we can help the Government to learn lessons for the future.

I thank you for your time. The report will be published after the Easter recess, once we have got through some other reports that we need to publish.