

Public Accounts Committee

Oral evidence: Strategic Suppliers, HC 1031

Monday 18 June 2018

Ordered by the House of Commons to be published on 18 June 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Caroline Flint; Anne Marie Morris; Lee Rowley.

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

Questions 573–673

Witnesses

I: Jonathan Lewis, Chief Executive, Capita plc, and Stephen Sharp, Executive Officer, Capita Government Services.

Reports by the Comptroller and Auditor General

Memorandum on Managing Government Suppliers (HC 811)

Memorandum on the role of major contractors in public service delivery (HC 810)

Principles paper: Managing provider failure (HC 89)

Government's spending with small and medium-sized enterprises (HC 884)

Transforming rehabilitation (HC 951)

The new generation electronic monitoring programme (HC 242)

Commercial and contract management: insights and emerging best practice (November 2016)

A Short Guide to Commercial relationships (December 2017)

Examination of witnesses

Witnesses: Jonathan Lewis and Stephen Sharp.

Q573 Chair: We are now resuming today's Public Accounts Committee meeting. We still have witnesses from Capita in front of us—Mr Jonathan Lewis and Mr Stephen Sharp—because we are now talking to them about their relationship with Government and the general issue of Government contracting for outsourced public services. Those are services funded by the taxpayer but delivered by private companies.

Of course, Capita has many contracts with Government and has done for many years, and this Committee has spent many a time looking at them. Your company has given us a lot of material, Mr Lewis, to look at issues, and we tend to look at the ones that haven't worked, so we've had quite a lot from Capita over the years.

We will kick off with some general questions about that. We expect this session to last around an hour; we may finish quite quickly. So if your answers could be short, that would be great. You have given your written evidence, and you don't need to repeat everything in there; we have all read that. I will ask Sir Geoffrey Clifton-Brown to kick off.

Q574 Sir Geoffrey Clifton-Brown: Mr Lewis—back again. We have had access to a certain amount of information in the Cabinet Office papers. Can you give us a very brief summary of all the other contracts—the major



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contracts; I'm only talking about the major contracts—and say where they are at this moment in time, please?

Jonathan Lewis: In terms of their performance?

Sir Geoffrey Clifton-Brown: Yes.

Jonathan Lewis: Of all of the KPIs that speak to our portfolio of central Government contracts, we are meeting 88% today.

Q575 **Sir Geoffrey Clifton-Brown:** Can you tell us which contracts are still causing you sleepless nights?

Jonathan Lewis: We have just had a thorough conversation on one.

Sir Geoffrey Clifton-Brown: Not that one, but the others.

Jonathan Lewis: The other one we would cite would be the army recruitment contract, RPP.

Chair: Which we have looked at.

Sir Geoffrey Clifton-Brown: Yes.

Jonathan Lewis: Steve manages this business on a day-to-day basis, so I think he could give a lot of granularity on any of the others. Others, such as the tagging contract, for example, are running very well and exceeding their KPIs.

Q576 **Chair:** Mr Sharp, is there anything you would add to that, as the man at the frontline?

Stephen Sharp: Yes, if I can. In the PIP contract, we are still not meeting the quality target of 3%, but are at circa 5%. We have a volume-related backlog on that contract, which will take us a little bit of time to clear.

Q577 **Chair:** What is the impact on individuals?

Stephen Sharp: We are still within the end-to-end KPI, but we are not doing it as quick as we would like. The volumes have been above forecast over the recent time. Once volumes go above forecast, it takes us a period of time to recruit up and catch up on the contract.

Q578 **Chair:** So how long are people waiting for their PIP assessment?

Stephen Sharp: It is a 40-day KPI — the average time is currently 33, but that is elongating at the moment.

Q579 **Chair:** It is going in the wrong direction.

Stephen Sharp: It is going in the wrong direction, but we have a plan in place to bring that back on target.

Q580 **Sir Geoffrey Clifton-Brown:** While we are on this subject, Mr Sharp, where has the DIO estates legal action got to?

Stephen Sharp: Let me just run the data for you. Of 195 milestones, 191 are either complete or on track, so we are 97.9% compliant against that contract.

Q581 **Sir Geoffrey Clifton-Brown:** So is the legal action still continuing?

Stephen Sharp: I am not aware of any legal action on the DIO contract.

Q582 **Sir Geoffrey Clifton-Brown:** Was there not a legal dispute between you and the Government?

Stephen Sharp: That contract was renegotiated over 12 months ago. It moved on to a different basis.

Q583 **Sir Geoffrey Clifton-Brown:** Can I ask you about the general financial status of your company at the moment? You have had this rights issue underwritten of £700 million. According to your statement, you have a net cash outflow this year of £475 million. How does that capitalise your business and are you likely to need to go for any further restructuring?

Jonathan Lewis: Let me answer the last part of that question: no. Within six weeks of joining the company, I ceased the dividend payment with the support of my board. We reset the expectations with regard to earnings we would deliver, because I saw a need to invest in the business. We made some very strong commitments with regard to what we would do around our pension deficit. On the same date in January, I also announced that we would be issuing the stand-by rights issue and that we would be selling businesses.

Six weeks formally into the role, I suggested we took quick and decisive action to address the balance sheet. On 23 April, we had a rights issue that had an unusually high level of subscription—one of the highest—with 98% of shareholders taking out their rights. We also committed to dispose of a number of non-core businesses and to realise not less than £300 million in proceeds from those businesses in the financial calendar year 2018. We are making good progress on that. The result of all of that is that by the end of this year our net debt to EBITDA will go from being well over 2 to less than 1.5. But even more importantly, we will be in a position to invest £500 million in capital over the next three years in the development of IT tech solutions here in the UK in support of our business.

Q584 **Sir Geoffrey Clifton-Brown:** Although not at the lowest, your share price has not recovered greatly. Is that a disappointment, given all the positive information you have just given us?

Jonathan Lewis: The share price went up considerably on the day of the rights issue, which was unusual. Since the rights issue, the share price has gone up several tens of per cent., and the sell-side analysts we have are now for “buy” on the stock, whereas previously they were for “hold” or “sell”. I and our board would like to think that the market has responded favourably to the decisive actions that were taken and, more importantly, to the decisions we made to focus Capita on a lesser number of business segments in which we could execute well for our clients. We had become too broad. We needed focusing and simplifying, and we needed



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strengthening, not only in terms of the balance sheet but in operational procedures as well. That is part of a multi-year transformation programme that we presented to the markets as part of our strategy, and that is ultimately why we had that level of buy-in to the rights issue.

Q585 Sir Geoffrey Clifton-Brown: That is, again, a slightly glossy answer, if I may say so. From memory, in 2016 your share price was 1250p. Today I think it is 121p. It has been down as low as 97p, so it has recovered a bit, but from a fairly low base.

Jonathan Lewis: The board made a decision in 2017 to bring in a new CEO to address aspects of the way the business had been run historically. I called it as I saw it, in terms of the strengths and the challenges and what needed to take place at Capita, and the financial implications of that resulted in a drop in the share price. We now have, for the first time in Capita's history, a multi-year strategy, a level of robustness of balance sheet and a focusing of the business in five core segments that will lead to growth and success going forward. I very much hope that our share price responds to that clarity of strategy over time.

Chair: I think the shareholders and the dealers will be listening to that.

Q586 Sir Geoffrey Clifton-Brown: I want to move on, because we are very keen in this inquiry to learn about your contracting experiences with Government. Before I do, you mentioned one thing that I have asked all the other witnesses who have come before us. Your pension deficit is one of the largest, at £381 million. I understand that you have agreed to pay £21 million towards that deficit in the relatively near future. Is this programme agreed with the Pensions Regulator?

Jonathan Lewis: Again, I go back to the statement I made on 31 January, in which—unusually for a CEO of a FTSE plc—I made a very clear statement that I would address the pension deficit as a matter of priority. I see that as part of the responsibilities that a CEO should have to all the stakeholders in his or her business.

We are currently in active discussion with the Pensions Regulator. The size of the pensions deficit is not currently in the public domain, but I can tell you that it is less than the number published in December. I will present a paper to our board on my recommendations as to what we should do with the pensions tomorrow evening, which is essentially to follow through on the commitment I made on 31 January to prioritise addressing the deficit.

Q587 Sir Geoffrey Clifton-Brown: If you are in discussions with the Pensions Regulator, you may have no option but to address it.

Jonathan Lewis: Companies don't always have to be told to do the right thing.

Q588 Sir Geoffrey Clifton-Brown: That is presumably one of the reasons why you are not paying a dividend.

Jonathan Lewis: Absolutely. It would be inappropriate for us to pay a dividend at this point in time.



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Q589 Sir Geoffrey Clifton-Brown: May I say that that is a commendable attitude, which some of your competitors don't necessarily have?

I will move on to questions around your relationship with the Government in the procurement process. We have been through one procurement, but things have moved on from that.

In your evidence to us on your relationship with the Government, you say that a positive next step in the evolution of the programme would be for the Cabinet Office to move from an oversight role to one where it is able to set standards on matters of procurement, contracting and supplier relationship management that are then adopted across government. That would be a fairly major change, would it not? How realistic do you think that is?

Jonathan Lewis: I am not sure I am in a position to comment on how realistic it is. Would it mirror what has become standard process in the private sector? Absolutely. It is very important that all large procuring organisations have a strategic supply chain function that oversees how services and goods are procured and offers best practice regarding how that should be undertaken. The Cabinet Office over recent years has made very good progress in that regard, with the appointment of strategic supply managers and the Crown Representative model, the model by which they assess our performance and we can provide feedback on how we feel we are executing on specific contracts. That is completely in alignment with what I experienced for 30 years in the private sector. Why do we recommend it? We recommend it because we feel—I feel—that at times the relationship we have with Departments is too managed and too inflexible. The relationship is not with the ultimate buying party—the end user of the services—but with the procurement function, and that is not best practice in the private sector today.

Q590 Sir Geoffrey Clifton-Brown: In that same paragraph you mention a “framework for comparative assessment between contracts enabling Capita to learn lessons and drive improvements alongside more effective scrutiny of our performance across the sector”. If that is your view, if you had another NHS contract similar to the one we have been discussing all afternoon, would you decline to bid for it?

Jonathan Lewis: No. Every contract opportunity will be evaluated on its merits, and it is perhaps worth pointing out that we do not approach contract opportunities in the public sector any differently from those in the private sector. We will look at the scope. We will look at our ability to deliver against that scope. We will look at the accuracy of the data being provided by which we assess price. We will look at the risk profile and, in a holistic way, assess whether it is something we wish to bid on.

Q591 Sir Geoffrey Clifton-Brown: I am marginally puzzled by that answer. Hindsight is a wonderful thing. Given all we know about that contract—the paucity of data, the scope of change, the lack of a uniform working pattern across the 47 offices—you still say that given that with that contract you would bid for it again today.

Jonathan Lewis: But that is no longer the case, of course.



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Q592 Sir Geoffrey Clifton-Brown: No. What I am trying to get at, and this is not a quick trick question, is whether there are contracts that are written in such a way that they are so unreliable or that you are able to make so little profit out of them—there must be a host of factors—that you would turn around to your board and say, “This contract isn’t worth bidding for”.

Jonathan Lewis: If your question is, “Are there contracts we will no-bid?”, the answer is an unreserved, “Of course there are contracts we will no-bid”. In fact, we have no-bid contracts since I have been at Capita and Capita no-bid contracts prior to my joining the business, for all the reasons we have been discussing: that the profile is unacceptable—

Q593 Sir Geoffrey Clifton-Brown: That is what I was getting at. I am sorry it took a rather long time to get there, and it may have been my fault.

Can you just comment on your relationship with the Crown Reps? Is it a good relationship and how could it be improved? Is the data sharing between the two of you working well or could it be improved?

Jonathan Lewis: It is a very positive relationship. I meet with my Crown Rep on a regular basis, formally and informally. In fact, I met with our Crown Rep as recently as last Thursday afternoon. We discuss the status of individual contracts. We went through an exercise very shortly after I joined of assessing what the market for contract opportunities would be in central Government as we were going through our strategic realignment. That was extremely helpful—

Q594 Chair: So the Government was giving you advice about what might be coming up.

Jonathan Lewis: The Government was discussing what it thought Capita was particularly competent at and how that might relate to the pipeline of contracts that would likely come to tender over the next several years.

Q595 Bim Afolami: On this point, do you feel that your closeness to Government is Capita’s USP?

Jonathan Lewis: No.

Q596 Bim Afolami: If not that, what is it?

Jonathan Lewis: Delivery on those contracts where we are delivering well. Every contract opportunity we bid on is assessed and the performance, when we have won it, in delivering is assessed on the performance we are delivering for that end user. If we are not delivering, we are not going to be given an opportunity to bid on future work.

Q597 Bim Afolami: So in short—I will hand over to Sir Geoffrey again in a second—you believe that your USP is that you deliver more effectively, more often than most of your competitors.

Jonathan Lewis: Yes. Isn’t that the aspiration of any private company?

Chair: It is just very clear that you think that is what you do. We will come back to that.

Q598 **Sir Geoffrey Clifton-Brown:** Like the Chair, I am slightly surprised by your answer that your relationship with your Crown Rep is so close that they are giving you advance warning of contracts that might be coming up.

Jonathan Lewis: I didn't say that.

Q599 **Sir Geoffrey Clifton-Brown:** Would you like to clarify exactly what you did say?

Jonathan Lewis: They provided us with an overview of the market for Government contracts that are likely to be realised over the next three to five years. We were going through a strategic review of the business and we needed to assess the allocation of capital and resource to the public sector, which is less than 25%—an important 25%—of our revenues overall, so the Cabinet Office, as any strategic supply chain organisation would, gave us a sense of the spend that the Government would have, so we could factor that into our strategic alignment process.

Q600 **Sir Geoffrey Clifton-Brown:** Let me be absolutely clear: you were not being given any information that was not available to any of your competitors.

Jonathan Lewis: Correct.

Q601 **Sir Geoffrey Clifton-Brown:** If you have read any of the previous evidence sessions, you will probably have discovered that I have been asking about payment to suppliers. Can you tell us what your policy is on the payment of your suppliers and payment dates?

Jonathan Lewis: We are signatories to the prompt payment code. We currently pay 95% of our suppliers within 60 days and 80% within 30 days, the latter of which is frankly not good enough. We derive services from some 70,000 SMEs across the UK, and they represent about 32% of our total spend.

Back in December, after some conversations with the Federation of Small Businesses and with the leadership of one of my senior executives, I set up a programme to look at what good looks like in terms of payment to SMEs. Earlier in this conversation, we touched on good governance and good leadership. No company should be using SMEs, or any supplier, as a line of credit. We should be making payments promptly and fairly.

I should also add that the average time we take to make a payment is about 23 days. There is more work to do—that is not as good as it should be—but it is an area where we are committed to improving our performance.

Q602 **Sir Geoffrey Clifton-Brown:** So if 80% in 60 days is not good enough—your words—what does good look like?

Jonathan Lewis: It has to be in the mid to high 90s. You are always going to get situations where there are disagreements on whether the scope of the work was correctly invoiced and so on, but—

Sir Geoffrey Clifton-Brown: We are talking about undisputed invoices.

Jonathan Lewis: Yes. It should be in the 90s.

Q603 **Sir Geoffrey Clifton-Brown:** When do you expect to achieve that?

Jonathan Lewis: I cannot answer that question today, because we are still in the process of defining how we are going to do it. We are in the middle of implementing a new enterprise resource planning SAP system. That requirement is being factored into the specifications of that. We have already seen some improvement over the past six months, but it will probably be another six months before we get to the level of metric performance that I want.

Q604 **Chair:** Some of those suppliers are being paid quicker—in 23 days, you said. Will they drop back to 30 days when you have implemented those new systems?

Jonathan Lewis: No.

Q605 **Chair:** It will be individual to individual SMEs—your payment systems will allow that.

Jonathan Lewis: Yes. The fundamental statement is one of not using your suppliers as a line of credit—period.

Q606 **Chair:** If I as a supplier were to invoice you on a 14-day payment, would you accept that? Some suppliers have a different cash-flow need than others.

Jonathan Lewis: Terms are typically 30 days or greater, but if that was what we negotiated in the supplier agreement, that is what we would be obligated to meet.

Q607 **Sir Geoffrey Clifton-Brown:** Can I talk about the openness of the contracting procurement process? Would you be happy to see more of the contracts that you win be put into the public domain? There would obviously be certain bits of them that it would be unacceptable to put into the public domain, such as the price or any innovative procedure that you have, but in general terms, would you be happy to see all contracts that you bid for and that were accepted put into the public domain?

Jonathan Lewis: Many of our contracts today are open book. Fundamentally, as long as we are not creating an anti-competitive situation, then yes, we are very supportive of greater transparency, particularly on the KPIs. I would suggest there is value in the Government doing that for insourced as well as outsourced services. As a taxpayer, I would want to see the value for money I am getting for services that are formed internally within Government Departments, as well as the value for money I am getting on those contracts that are outsourced, so I can make an informed decision.

Q608 **Sir Geoffrey Clifton-Brown:** Does that suggest that you are innovatively, maybe in conversation with your Crown Rep, going to Government and saying, “I think we”—Capita—“could be more



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competitive on this particular provision of service"? Are you engaged in that exercise at all?

Jonathan Lewis: If your question is one of transparency related to competitiveness, there is no connection there. Irrespective of how we bid or what we bid on, transparency is independent.

Q609 Sir Geoffrey Clifton-Brown: It was not quite that. It was a bit more innovative than that. Are you looking at certain Government services and going to your Crown Rep and saying, "If you were to put that out to tender, we think we could deliver that more efficiently than you are yourselves"?

Jonathan Lewis: We do not do enough of that. Would I like us to do more of that? Absolutely. Why? Because that is, as you know, exactly what happens in the private sector, where you are constantly looking at ways in which you can help private sector companies become more efficient.

Q610 Sir Geoffrey Clifton-Brown: And that is why you would like to see the Government, on their insourcing, publishing more KPIs so that it would become more apparent where efficiencies could be gained.

Jonathan Lewis: It is even more fundamental than that. The only conversations that taxpayers in this country ever hear about outsourcing is on negative contracts that have gone wrong. There is an inevitability about that. In this forum I suspect the primary topic of conversation around outsourcing is contracts that go wrong. That is biasing the taxpayers' views on the value for money that may or may not be derived from outsourcing. Put it in the public domain—both sides.

Q611 Sir Geoffrey Clifton-Brown: I have one final question on the Public Services (Social Value) Act 2012 and the corporate social responsibility of your firm. Can you tell us how seriously you take that? Can you give us some examples of where you consider you have done it really well?

Jonathan Lewis: If you are talking about, more fundamentally, CSR, whether it is charitable donations or engagement in the communities in which we operate, to date we have given some £1.2 million to Alzheimer's because that is our corporate charity.¹ We allow our employees to spend, I believe, a day a year working with communities in the area in which they work. In 2017 we gave £2 million to charitable causes, again in the segments in which we operate. Then there is a long list, which we would be happy to share with you, of charitable involvement that our employees undertake beyond what I have just described in support of the communities in which they operate.

Q612 Sir Geoffrey Clifton-Brown: In addition to that, how seriously do you take the Public Services (Social Value) Act?

Jonathan Lewis: Very seriously. I don't think there are that many contracts today where we are encouraged through the contracting process to fulfil the obligations of that Act. There is more we could do

¹ Note from witness: this correct figure is over £200,000



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there.

Q613 **Sir Geoffrey Clifton-Brown:** Do you think the Government, in their procurement process, should take that more seriously in writing it into Government contracts?

Jonathan Lewis: Yes.

Q614 **Anne Marie Morris:** Clearly, corporate governance and social responsibility in today's world are very important. Did the Government ever ask you, other than as a tick-box exercise, what exactly you were doing by way of corporate governance specifically for the communities that you work in and what you do with regard to environmental concerns?

Jonathan Lewis: I do not know the answer to that. Steve, do you know?

Stephen Sharp: No.

Q615 **Chair:** Will you write to us, then?

Jonathan Lewis: Yes. I would be happy to.²

Q616 **Anne Marie Morris:** Okay. Second question, to which you also might not know the answer. With regard to modern-day slavery, did the Government ever ask you whether you had posted a statement in accordance with the new rules?

Jonathan Lewis: I cannot comment. Steve might be able to answer whether or not there was a specific question from the Government on that. But is that an integral part of our CSR strategy? Absolutely. In fact, there is quite a comprehensive summary of our approach to that on our web page. It speaks to how we hold our supply chain accountable, also ensuring that they do not infringe that legislation, including the audit of those suppliers to ensure that that does not happen.³

Q617 **Anne Marie Morris:** What is the mechanism you use for the audit?

Jonathan Lewis: When we procure services, any entity that wishes to provide a service to Capita has to commit in writing that it is fulfilling our values, one of which speaks to the Modern Slavery Act.

Q618 **Anne Marie Morris:** But do you actually send somebody in to have a look?

Jonathan Lewis: Yes, we do. That is the audit function.

Q619 **Anne Marie Morris:** Is that part of an annual audit process or is it something specifically looking at slavery?

² Note from witness: We can confirm that the Government Commercial Function's Annual Strategic Supplier Review requests information about corporate governance and CSR as part of the annual return.

³ Note from witness: Our Modern Slavery Act Statement provides details of our processes and how we hold suppliers to account. Information is requested as part of the Government Commercial Function's Annual Strategic Supplier Return

Jonathan Lewis: We do not go into every single supplier. We ask them to commit in writing that they are fulfilling the Act. Do we, as part of a broader audit process, choose selective suppliers who we audit against that, and other metrics for that matter? Yes we do.

Q620 **Anne Marie Morris:** How many would that be?

Jonathan Lewis: I don't know, but we could provide the number.

Anne Marie Morris: If you could send us the detail of what you actually do, that would be appreciated, because the evidence is that very few companies have no slavery. If you are doing it only on a sampling basis, I wonder about the effectiveness of what you are doing.

Q621 **Chair:** On the issue of the Government's evaluation, has there ever been any evaluation of your supplier payment terms by Government, or do you just report it in through your normal metrics?

Jonathan Lewis: I am not aware of that. Stephen, are you?

Stephen Sharp: Neither am I.

Q622 **Chair:** But do Government require you on the contracts you are working on to submit a return on how quickly you pay suppliers, given that you are signed up to the code?⁴

Jonathan Lewis: I am not aware that they require that. I think that this touches on the broader issue of whether they should have to. There is a code, and we are signed up to it, so we should be adhering to it.

Q623 **Chair:** It was just a quick question about whether there was any evaluation. How do you evaluate that in-house then? Do you have an internal audit?

Jonathan Lewis: Yes.

Q624 **Chair:** So that would be available if the Government asked for it.

Jonathan Lewis: I look monthly as part of the KPIs of our own business at what we are doing in terms of supplier payments.

Q625 **Bim Afolami:** I have been through your written evidence and in answer to 6(c) it says: "Capita approaches procurement opportunities on a consistent basis across the public and private sectors". I gently put this to you: do you think that that is appropriate? I would argue that in certain instances the public and private sectors have different aims and KPIs, real aims that they want to achieve. They are not going to be quite analogous. Do you think that this might be some of the cause of some of the difficulties you have had?

Jonathan Lewis: I do not believe, for the discussions we have been having all afternoon, that the need to treat public sector contracts from private sector ones is the reason we have the issues on certain contracts

⁴ Note from witness: We can confirm that this is requested as part of the Government Commercial Function's Annual Strategic Supplier Return.



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that we do. I just don't. It is insufficient data at the procurement stage. It is at times poor execution by the contractor, and there have been instances where we have clearly done that. It is misunderstanding or misrepresenting the risks associated with a particular contract. But fundamentally those issues are no different. Is there an accountability to the taxpayer? Is there a higher standard that would need to be applied in the public sector? Yes, of course.

Q626 **Bim Afolami:** I would even go the other way as well, regarding what people expect in terms of delivery. I am not talking about the taxpayer. I am talking about the quality and delivery. I would argue that in the public sector, in certain instances, it is different from what it is in the private sector. But you don't think that is true.

Jonathan Lewis: There are certain areas of service—the NHS would be a very clear one—where the requirement to deliver clearly has broader implications in terms of patient wellbeing, but I can assure you that our private sector contractors hold us to a very high standard.

Stephen Sharp: A couple of things might be worth noting. It is fair to say that when we see contracts coming from the public sector the service requests are always high—97%, 98%, 99% or 100%. I have dealt extensively in Capita in the private sector, and they tend to look more at what their aims are for the service. Sometimes the service quality is not as high. It is fair to say that the higher you set the quality standard, the more expensive your outsourcing is going to be. Sometimes the Government needs to evaluate whether it needs 99% or 98%. Is picking up the phone in 30 seconds—90%—good enough? Do you need it to be 98%? You see nuances like that between public and private.

Q627 **Chair:** Do you think the public sector is sometimes gold plating the quality of the contract? You are suggesting that an extra 10-second wait on the phone would be a lot cheaper.

Stephen Sharp: Yes.

Q628 **Chair:** Do you have conversations with the Government on that basis?

Stephen Sharp: Yes. Even on the past, we have submitted bids on the KPIs, and occasionally we have said, "Actually, if you looked at the KPIs, it could be another price." Often, it is just judged as a non-compliant bid.

Q629 **Chair:** But at the point at which you are bidding, it is too late. You need to have that conversation earlier.

Stephen Sharp: We do try, but we tend to find that it is more or less a gold standard. It is quite rare that anybody backs down from a service level once they have communicated it.

Q630 **Chair:** You work across a very wide range of Government services. Mr Lewis has talked with enthusiasm about the relationship with the Crown Representative, although admittedly you have only been with the company a relatively short while. Do you feel you have got the opportunity to talk to the Government about how you can shape the



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delivery of public services? Do you think that has been taken on board in the way any contracts have been drawn up?

Jonathan Lewis: It is increasingly variable. I have had a number of conversations at senior levels in Government Departments in the last few months, in which there has been a broader recognition that there needs to be more dialogue prior to a tender to evaluate what the scope for value creation is and how we can use technology and innovation. That comes back to the conversation we were having earlier in the session. There is a lot more potential for co-creation and collaboration than has historically taken place in the public sector. It is a missed opportunity.

Q631 **Bim Afolami:** The Government is saying that it wants to get more SMEs to participate in Government procurement. I am looking again at your written evidence—you see, we do read it—and 6(d) says that Capita believe that there should be “more emphasis on collaboration, co-creation of solutions and proof concept”, so working with Government. Do you not think that, by doing that, one might inadvertently shut out SMEs? The truth is that only companies of your size and scope will ever really have the time and resource to do that in working with Government.

Jonathan Lewis: One might argue that some of those SMEs do not have the balance sheet, the scale or the capability to take on the types of contracts we are discussing. Do we then bring a significant number of SMEs into the overall supply chain? Absolutely, we do that, as the data I have shared with you this afternoon evidences. This is a really interesting point, because companies like Capita are effectively playing the role of the integrator. We are bringing together a number of SMEs, which, were there not that integrator role, would not be able to come together to deliver a service to Government.

Q632 **Bim Afolami:** That is a very interesting point, and we have heard it from other strategic suppliers. However, I put it to you that perhaps you need to play that role because of the very complex nature of the contracts we procure, such as the NHS one that we discussed earlier. Do you think it is necessarily more efficient to do it that way, or would it be better to have more management in-house, and then contract out smaller contracts, perhaps directly to SMEs or smaller strategic suppliers? When I say efficient, I mean value for the taxpayer. That is what I am counting as efficient.

Jonathan Lewis: That is a really interesting question, and I would approach it as follows. One has to make an assumption about who is the better integrator.

Q633 **Bim Afolami:** Government or Capita.

Jonathan Lewis: I know I keep harking back to the private sector, but that is my experience. I operated for 30 years in an industry that provided 95% of its services to outsourced parties, because they were more efficient at innovating and figuring out how to drive productivity gain and get more efficiency, a better end customer experience, and a more predictive insight into data based on things like data analytics. It is not



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that Government could not do that—of course they could—but I think the question we have to ask is, who is best skilled to do that? Then it comes back to the transparency of metrics: how do we provide data for both parties to ensure that the taxpayer is getting value for money?

Q634 Bim Afolami: On that point, if you look at how Government are set up, in the procurement sense, you have the Cabinet Office playing an oversight role—as you put it in your written evidence—and then you have the individual Departments doing the heavy lifting, so to speak. You have said in your evidence that you feel that the Cabinet Office should take stronger control over this process, and set stronger standards and the like. Therefore, are you not really going for a model, whereby you will get fewer and fewer companies like Capita bidding for these things and acting as integrators? Is this your preferred model, intellectually, whereby you have three or four very big integrators and then the SMEs come in after that through the supply chain? Because if you fit those two things together, that is what you are getting.

Jonathan Lewis: Again, I draw a comparison with the private sector. This is a proven model. We are not creating something from scratch here. I would much rather deal with a Government Department that took a strategic and holistic view of procurement, than a Government Department that may perhaps be more focused purely on the cost savings, the legal Ts and Cs, and delivery of the KPIs. We need to look at these things holistically. What is the aligned goal that both parties are trying to achieve here? How do we co-create and collaborate, and then take to tender an opportunity to deliver that? That is how it happens in the private sector, because in most private companies there is a central strategic sourcing function that provides that assistance to the procuring party—some other part of that larger organisation.

Q635 Bim Afolami: My last point on this is simply that we have heard evidence from other strategic suppliers where they have said that they think you need to beef it up in the Departments, rather than Cabinet Office having a stronger role, because they feel that if the Cabinet Office had a very strong role, you would not necessarily get that close understanding of the data, the information and the KPIs that you get from Departments. It is obviously a balance, but do you feel that the balance needs to swing more strongly to the Cabinet Office?

Jonathan Lewis: It is another really good question. It is not one or the other. The guidelines, the methodology, the process and the governance model should be defined and adoption ensured, we would advocate, by the Cabinet Office. The procurement activity goes on within the same Department, but it is doing it with an improved procurement methodology.

Q636 Bim Afolami: Where does it work well now, whether in the UK or in Scotland, or in a Department? Where does it work well? If we were investigating this and you were to say, "Listen, you guys should go and look at X, and if you look at X, you will see that that model works best," inside the UK or outside, where would that be?



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Jonathan Lewis: We are all driven by our own experiences of course. Having spent 30 years in the oil and gas industry, which outsources everything, I would cite that as somewhere where you would learn a lot, quite frankly.

Chair: It outsources a lot of safety-critical things there. Well, everything is pretty safety-critical in that industry.

Jonathan Lewis: We started every single meeting with a discussion on safety, whether it was external or internal.

Q637 **Chair:** Do you think you are too big to fail?

Jonathan Lewis: No, no private corporation is too big to fail.

Q638 **Chair:** If you did though, given the number of fingers you have in different Government pies, it could be pretty catastrophic. It would be a big job for Government to rescue all the contracts. If, overnight, you had a Carillion collapse—

Jonathan Lewis: We did not, but we went close—just for the record.

Q639 **Chair:** I am sure your board will be glad to hear you saying that. Had you done, what contingency plans have you got in place? Because you are running some pretty safety-critical and critical contracts out there, including the one we were just discussing.

Jonathan Lewis: Steve can talk about step-in rights in a minute, because he is far more knowledgeable about that than me, but as we saw in the case of Carillion, it is actually quite straightforward to segment individual contracts and either TUPE them back into Government or TUPE them to a third party that will continue to run those services. Could more be done a priori to ensure that the mechanism by which that would be undertaken was assured ahead of time, should that ever be an eventuality? We would encourage and support that.

Q640 **Chair:** Do any of your contracts have strict contingency plans in place as part of the contract?

Jonathan Lewis: We have step-in rights, but not contingency plans. Is that correct, Steve?

Stephen Sharp: All the contracts have got disaster recovery and we have dual sights running on all the big Government contracts. There are step-in rights in all of the Government contracts. It is fair to say that over the last six months or so we have seen more activity on contingency arrangements with regard to anything catastrophic happening.

Q641 **Chair:** So that has stepped up since the collapse of Carillion.

Stephen Sharp: Yes.

Q642 **Chair:** So if something did happen and you suddenly failed as a business overnight, you as a contractor would have a responsibility to make sure, working with the Government—

Stephen Sharp: Yes. The Government have now got all our legal entities



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and all our contractual—

Q643 **Chair:** So the basic information.

Stephen Sharp: It will be a lot easier now.

Q644 **Chair:** Do you have to update that regularly for the Government?

Stephen Sharp: Yes. It doesn't change that often, to be fair.

Jonathan Lewis: The other thing I would add, if I may, is that as Capita went through everything—it went from January all the way through to today—we have been completely transparent under a non-disclosure agreement with the Cabinet Office as to precisely what we are doing and why we are doing it ahead of that going into the public domain, so they had an opportunity to take whatever action they felt they needed to take.

Q645 **Chair:** We know that those conversations happened. The Cabinet Office knows that and you know that, but your supply chain doesn't, as the Carillion supply chain discovered to their cost. They were unaware that the collapse was coming.

Jonathan Lewis: I completely agree, but you can precipitate the demise of an organisation. It is a delicate balance.

Chair: I appreciate that when you answer you are in a different place from politicians answering to taxpayers.

Q646 **Bim Afolami:** Final question. Say you are appointed tomorrow to be the Government's procurement supremo with the rank of permanent secretary. You go into the Cabinet Office and Sir Jeremy Heywood says, "What is the one key thing that we could do right now to improve this process for Government"—I say very clearly "for Government"—"thereby improving value for money for taxpayers, improving service delivery and providing higher standards?" What would be the one or two things that you would do?

Jonathan Lewis: I am glad you gave me the opportunity of two. We need to do a lot more collaboratively about co-creation.

Q647 **Bim Afolami:** With private businesses.

Jonathan Lewis: The Government Departments with private business to explore the art of the possible in terms of how value can be created, particularly as it relates to things like digital transformation. Secondly, I think Government would see far more proactive involvement in tender opportunities if some of the Ts and Cs were not as onerous as they are. I am not sure I have ever in my 35-year career signed a contract that has unlimited liquidated damages or termination for convenience. Guidelines have rightly been provided by the Cabinet Office to prevent those terms from being put in place, but they are not being universally adopted across Government Departments.

Q648 **Caroline Flint:** I apologise for arriving late. Forgive me if I ask questions that might have already been answered. I am interested in the experience that leadership in the strategic suppliers say they bring and then seem to have a huge amount of problems in delivering a variety of contracts. Your background, as you just mentioned, is in the oil and gas



service areas. Obviously that is a very interesting area. You might be able to say that you can just swap one for the other. Maybe you can say a bit more about how you think your experience—you are quite new to Capita—will make a difference in contracts that seem to have gone wrong, which are very different from your experience. There are people at the end of it, not only in terms of the NHS—the doctors, pharmacists, opticians and dentists—but their patients beyond that. I would suggest that your industrial experience and the contracts in that area and the end delivery are somewhat different from what we expect from some of these public service contracts. And that goes for some of the other areas that Capita has had a few problems with over the years, which is understanding where the people are in this and how you therefore provide that sort of service.

Jonathan Lewis: It is a fair question. I think I would start by saying something that the Chairman said, which is that people are at the very heart of everything we did in the oil and gas industry. In fact, we put people—in my last organisation, 44,000 of them—in a working environment where we had to be incredibly focused on their safety and wellbeing. I cannot remember whether you had joined us at this point or not, but it was to an extent where safety was the dominant conversation in every single meeting. In fact, whether the meeting was with an external party or internal—an executive management meeting or an operational meeting—there would be a so-called “safety moment”, at which we would discuss our most recent learning with regard to safety, particularly from a preventive standpoint. The results of that are reflected in the safety statistics of the industry, which are superior to that of grocery stores in north America. It is a much safer industry because of the focus on people.

Q649 **Caroline Flint:** Can I just stop you there? I used to cover the energy brief for Ed Miliband so I know, as a lay person, quite a lot about this sector. What stands out for me, and from what you have just said, is that you have people who understand the sector and industry who have a very strong focus on some key indicators, such as health and safety, and of course there is a whole body of associations and organisations that expertly underpin both the technology and science of ensuring that everybody who goes out on an oil rig is kept as safe as possible. It seems to me that that is a very structured, unified network of experience and skills that allows that sector to do its job well. I suggest that that therefore plays into being able to procure the right sort of services from the right sort of suppliers, because you know whether they are reaching a certain ability in terms of delivering the functions you want.

However, when you look at Capita’s diversity across the piece—the smorgasbord of areas it covers in contracting—I am not sure whether you could, hand on heart, tell me that the same sort of rigour and expertise that you had in a unified way in the oil and gas sector can apply to each of the divisions and types of areas of contracting that Capita does, whether it is translation services, tagging or NHS services. Could you, hand on heart, tell me that there is the same sort of rigour and expertise there?



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Jonathan Lewis: No, and perhaps that is why the board appointed me. I am not trying to be trite, but that is absolutely the case.

Q650 **Caroline Flint:** But what you are telling me is that Capita as an organisation bids for contracts but does not have the same level of expertise that you would have required in the oil and gas sector.

Jonathan Lewis: It depends on the maturity of the industry. The outsourcing industry is not as mature as the oil and gas industry in all aspects.

Q651 **Chair:** Well, no, but take the translation contract, which came before the Committee in, I think, about 2012 or 2013, that was bid for. Capita took over the translation services in courts, and there was chaos because Capita had no understanding of the rhythm of the courts or the style of employment that the translators and those types of experts were used to. There was a lot of waste and challenge, and a lot of wasted court time as a result. Capita was manifestly not qualified in terms of its knowledge of that sector to deliver the contract, yet it bid for it and chaos ensued. Now you are here, and saying that they appointed you for a reason. What would you do if you were presented with a contract like that again? You said earlier that nothing would be out of bounds.

Jonathan Lewis: No, I—

Chair: You said you would assess each one on its merits. Forgive me—I paraphrased badly.

Jonathan Lewis: Yes. We have gone through a process. We are in the middle of a process of—

Chair: Cleansing.

Jonathan Lewis: Of injecting precisely the kinds of operational discipline and maturity into Capita that Ms Flint rightly refers to as being present in the oil and gas industry. That is not to say that Capita was broken, but absolutely there is room for improvement. That's No. 1.

No. 2—we are going to be much more focused. We are not going to try to do the whole range of services we have done historically that perhaps we were not the best entity to deliver services on. I have been very public in my comments to the markets about the areas we are going to focus on. We have gone from 40 different segments down to five. We cannot be great at 40; we will be great at five. That will address, hopefully, some of the points that you are rightly making.

Q652 **Chair:** Do you think if other suppliers followed that route, there would be more competition for outsourced bids? At the moment, we see very few people. I think the contract we looked at just now went down from 40 to three of you. Frankly, we see some going down to two or even one and the Government trying to hold another bidder in the race, particularly on rail contracts.



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Jonathan Lewis: I think the factors determining the level of competition for public procured services are going to be influenced far more by the broader topics we have been discussing today—terms and conditions, and the sophistication of the supply chain process—than by matters such as a decision by a company such as Capita about where to focus. Competition is a wonderful thing. If there is an opportunity for a company to deliver a service and they are competent at doing it, they will do it, so I worry less about that as an influence on competition. I would worry more about speccking, Ts and Cs, and so on.

Q653 **Chair:** As somebody who contracts with businesses—you have suppliers—when would the number of people bidding get so low that you would be worried about it? I suppose it depends on the precise level of detail, but with large SMEs, perhaps on a contract that was quite general and not very specialist—I guess for some of the specialist contracts you may only have one specialist company doing some of the work—is there a point where you would think, “Competition’s not working for us”?

Jonathan Lewis: For the Government?

Chair: Well, for you, and then translate it into what would be too small a number for the Government. As I say, we see too many bids go down to one or two for the Government.

Jonathan Lewis: Theoretically, could that happen? Yes, it could. We have the privilege of serving multiple segments, and we will allocate our resources and our capital to those areas that best serve all our stakeholders.

Q654 **Chair:** What about if you are bringing in an SME to do some work for you? When do you think the number gets too low for the competition to be really good? How many do you like to have in a race when it comes up to you from your management?

Jonathan Lewis: If I think back over my career, you rarely want to get much below three.

Chair: Okay, thank you.

Q655 **Caroline Flint:** One of the things we have looked at following the Carillion collapse is how SMEs sometimes find only when things become a problem that they have not been paid on time, and that some—

Chair: We’ve covered payment terms.

Caroline Flint: Oh, have you?

Chair: I think you are making a slightly separate point, but I wanted to reiterate that.

Caroline Flint: Okay—bear with me on this. One of the problems that has emerged is that Government Departments do not have the ability—I hope I am not repeating anything—to audit or check independently.

Chair: We’ve covered that.



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Q656 Caroline Flint: Fine, okay. Let me go on to something else. May I come back to the issue of being the prime contractor to SMEs? Have you covered that?

Chair: No, that's fine. We have a bit, but—

Caroline Flint: Okay. I just wonder whether, with the Government's concept of having a prime contractor steering the course for perhaps hundreds of SMEs, we get as full an idea as we need to about the management of the risk in all that. What do you, as a prime contractor, think about how you aggregate risk when you are dealing with multiple SMEs? You may not have enough control over what they are actually delivering on the ground.

Jonathan Lewis: We, not the Government, are carrying the risk on that today. If the Government were to procure directly to the SMEs, the Government would de facto be taking on more risk.

Q657 Caroline Flint: But how assured can the Government be that you are sharing the risk with them? And if you have contracts across different spending Departments, let alone with the NHS or local government, how can anyone pull together just what that risk is? They are reliant on you to share that, aren't they?

Jonathan Lewis: I think we had a very good example earlier of where the risk was extremely asymmetric—PCSE. As we discussed earlier, we have invested £140 million—we have lost £140 million, essentially—in the execution of that contract. None of that has been passed on to our SMEs. That is on our balance sheet and our P and L; it is not on the SMEs' balance sheets or P and L.

Q658 Sir Geoffrey Clifton-Brown: I want to cover two subjects quickly, Mr Lewis. The first goes back to Mr Afolami's questions about terms and conditions in procurement contracts. This is a free market. You do not have to bid for these contracts that have these supplements that you regard as unreasonable terms and contracts conditions.

Jonathan Lewis: You are absolutely correct.

Sir Geoffrey Clifton-Brown: And if all your fellow competitors didn't do it, Government wouldn't be able to impose it.

Jonathan Lewis: Correct.

Sir Geoffrey Clifton-Brown: So why do they do it?

Jonathan Lewis: Any CEO wants to have a diverse revenue base. First, you don't want to be dependent on a finite number of markets. Secondly, there are many things we do, particularly around digital transformation, where I see potential for application in Government. There is value that we can create for Government, particularly when we co-create and we collaborate on the solutions. That is a business opportunity for us, in the same way that such a business opportunity may exist in the private sector. All of that said, if the terms and conditions and transfer of risk are



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not balanced, we will not undertake that work; we will not bid on that work.

Sir Geoffrey Clifton-Brown: A final question: are the profit margins—

Jonathan Lewis: I am sending a very strong message there. I'm saying, "I want to work with Government"—

Q659 **Chair:** But only on certain terms.

Jonathan Lewis: But terms that are deemed unreasonable in the private sector, for example unlimited liquidated damages.

Q660 **Sir Geoffrey Clifton-Brown:** Just to reinforce your message there, I have a further question: if the Government seek to impose unreasonable Ts and Cs, particularly in risk transfer that they themselves can control, you will have to price in such a premium that they shouldn't do it. Is that correct?

Jonathan Lewis: How do you quantify unlimited liquidated damages? That's a no-bid.

Q661 **Chair:** We talked a bit earlier and you said you would always assess something on its merits, but other suppliers have given us indications of where there are red lines. So, some chose—very, very definitely—not to bid for the community rehabilitation company contracts. Others shy away from prisons; others from the care sector. You have narrowed down. Can you just explain what your rationale was for narrowing down? Was it about the risk in the political context, or was it because you decided that you would take your pick and, "We'll narrow down to these five"? I can't believe it's as simple as that. I'm paraphrasing; I'm simplifying.

Jonathan Lewis: The first shaping parameter was whether or not it tied to our strategy, and our strategy is that we use digital technology to drive productivity improvement, lowering of risk, a better customer experience, and greater predictive capability—

Q662 **Chair:** So that is the USP that Mr Afolami was asking about.

Jonathan Lewis: Yes. So that is the first hurdle that needs to be cleared. There are other shaping parameters, for example direct provision of clinical service. Some of the areas in prisons are not areas where we are going to bid.

Q663 **Chair:** Okay. We heard from Mr Sharp about a difference in the terms and conditions of the public sector, with very high delivery points set, perhaps driven politically by Ministers. Very often in this Committee, we are critical, indeed, of public services if they don't hit these. Mr Sharp said it's different in the private sector. Do you think that the public sector is gold-plating some services to the detriment of the taxpayer?

Jonathan Lewis: I am sure there is an element of that, and we have seen some of that in some of the contracts we have discussed. I think there is a bigger issue. Because of the nature of the procurement process and the public sector and its highly politicised nature, people don't

demonstrate the level of flexibility that you would see in the private sector—

Q664 **Chair:** You say flexibility; the danger is, from the political sphere, that that is seen as cosy—contract chats and partnering.

Jonathan Lewis: Let me give you a very good example. The flexibility can be realised early on in the procurement process. Let's cite RPP. The RPP had an extraordinarily specified scope. I don't draw this analogy with the RPP contract, but is it possible to spec a scope of work so that you beat any element of the potential for innovation out of that scope? Absolutely. You're constraining the ability of the supplier to innovate.

Q665 **Sir Geoffrey Clifton-Brown:** You have been very candid with us this afternoon, Mr Lewis. I have one further subject I'd like to cover. In these large strategic facilities contracts, is the level of profit margin sustainable in the longer run?

Stephen Sharp: To be clear, we do not really operate in the facilities management sector. We have an infinitesimally small amount of business in F&M work. We don't play in those contracts; we never have.

Q666 **Chair:** Do you think that companies have been low-balling? You read this as business experts, even if it is not your area of specialism. You can look at the bottom line.

Stephen Sharp: I am no expert in facilities management, so I don't feel—

Jonathan Lewis: But surely that is part of the competitive dynamic. I have never operated in a—

Q667 **Sir Geoffrey Clifton-Brown:** It is, but let me try this in a different way. You ran into financial difficulties, and you were what I would call one of the larger Government procurement outsourcing contractors. That was presumably caused because the level of profit margin you were all bidding down to was unsustainable in the longer run.

Jonathan Lewis: I can completely understand why you would draw that conclusion but that is not the case. Did the loss on public sector contracts add to the financial challenges we faced in January? Of course it did. Frankly, paying a dividend for a number of years that was uncovered and that we had to borrow to pay, undertaking 70 acquisitions over the previous five years and racking up a very large level of debt on the balance sheet, had far more to do with it than public sector contracts.

Q668 **Sir Geoffrey Clifton-Brown:** So if that is the case, why are virtually all of you in this large Government procurement sector needing to restructure your finances?

Jonathan Lewis: I think it speaks to the maturity of the sector. Every major Government outsourcing contractor has changed leadership in the last three or four years. The very entrepreneurial individuals who grew these businesses very impressively over relatively short periods of time have moved on, and you have seen leadership come in that is accustomed to running very large, disciplined, mature organisations with a much



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stronger emphasis on operational excellence and performance, measures, KPIs, governance and so on. With that, there is no reason why this sector should not flourish.

Q669 Sir Geoffrey Clifton-Brown: Let's try this question in another way: under your leadership, doing the proper due diligence and only bidding for the contracts you want to bid for, do you expect the profit margins to rise on the types of procurement contract you are going to bid for in the next five years?

Jonathan Lewis: No, because I see a greater tendency to open book and a sharing of whatever profits we make with the Government. In fact, we do that on the EMS contract today—we are paying about £9 million over 2017 and 2018 to EMS.

Q670 Chair: On that point about bidding and the way in which you approach it, do you not think that up until 2010, before austerity bit, it was a cash cow for the private sector to come in and bid for a contract, whether or not they were qualified to do it? As you have highlighted, and we have noticed this—we have had a lot of you in front of us—there has been a change of leadership, a narrowing of focus and lots of pledges about paying people in 30 days. Your PR people must be working on overdrive to see what bones they can throw to people like us to get us off your backs a bit and give you the space to do what you want to do. But after 2010 the money was just not rolling in, was it, under the old model? You paint yourself, and I do not doubt what you say, as someone who wants to come in and run a business that does what it says on the tin. You do it with people in mind and you do it effectively—all credit to you for that. But why did that change happen? Wasn't it because the money stopped rolling in after 2010?

Jonathan Lewis: I don't think there is one single cause here. It is myriad different things. If I think of Capita, we became very large and, to an extent, unwieldy, without some of the discipline and the mature processes necessary to run a business.

Q671 Chair: Capita used to have a reputation for bidding for anything. If it was on offer from Government, Capita would bid whether it was qualified or not. The moniker you have in *Private Eye* is there for a reason, to be honest. There were quite a lot of examples of that, before your time Mr Lewis. I will let you off—

Jonathan Lewis: I hope, Chairman, that if nothing else you get a sense that that is not going to be the modus operandi going forward.

Q672 Chair: I am sure your board will be delighted about what you are doing to the share price as you sit here looking cool and calm. Do you not acknowledge—as someone new to the sector, you can say this with impunity—that you came in from the oil and gas sector, which is a very different sector, as we have discussed, to a sector that had grown like Topsy and that saw profit margins increasing on PFI deals and all sorts of other contracts that were badly written by the Government, and then the Government turned off the tap and you had people like Francis Maude



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coming in and saying, "We're going to screw down the price," so suddenly, the bubble burst?

Jonathan Lewis: I shouldn't be too hard on yourselves. This is no different from many other industries. When the oil price is \$140, guess what happens? Exactly what you have just described. In 2014, when the oil price went down to twenty-something dollars a barrel, exactly the same thing happened as happened in 2010. You learn to get efficient and productive. This is Darwinian—you figure it out. The competitive pressures on outsourcers to figure out more ways of being efficient through a greater use of technology and more innovation have the potential to deliver considerable value for the Government. That is why it is an appealing segment to us.

Q673 **Caroline Flint:** Efficiency should not be monopolised just by the private sector. Is one of the problems not that so many Government contracts are a people business—I am not saying that the oil and gas industry is not a people business, but it is a rather different business when you are delivering a contract for the DWP in terms of benefits? When you deal with people, whether it is a Child Support Agency or anything else, they come in so many shapes and sizes and with so many problems, and maybe that is something that with the private sector, the Government Departments are not understanding well. It is not just about efficiency and money; it is about the value of the relationship with those individuals.

Jonathan Lewis: I completely agree. We did not have this conversation in the PCSE section, but I was brought up in the NHS. My dad was a GP and my mum was a physio in a south Wales coalmining town. I know what it is like to work in those environments and I know the implications of when Capita does not deliver to those people in society. I live there today.

Chair: Thank you very much for your time, Mr Lewis and Mr Sharp. We will be producing possibly our first report on strategic suppliers by the summer; we are coming to the end of this inquiry. It is likely that we will see you again, given that you run so many Government contracts on other matters, but if they go well, you never know, you might be off the hook.

Jonathan Lewis: It would be nice to come in and talk about a contract that is running well.

Chair: Well, indeed. If that is all we end up having to talk about here, it will be a good news story. Thank you very much for your time. I should say that our transcript will be up on the website uncorrected in the next couple of days, thanks to our colleagues at *Hansard*. They are incredibly good at their job, but do have a look it, because certain corrections are allowed—not factual corrections, but other things—if there is anything wrong. Thank you very much.