

Public Accounts Committee

Oral evidence: [Capita's Contracts with the Ministry of Defence](#), HC 1736

Monday 14 January 2019

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Members present: Meg Hillier (Chair); Douglas Chapman; Sir Geoffrey Clifton-Brown; Chris Evans; Caroline Flint; Anne Marie Morris; Bridget Phillipson; Gareth Snell; Anne-Marie Trevelyan.

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

Questions 1-191

Witnesses

I: Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Lieutenant General Richard Nugee, Chief of Defence People, MoD, Lieutenant General Tyrone Urch, Commander of Army Home Command Group, MoD, Andrew Forzani, Chief Commercial Officer, MoD, and Jonathan Lewis, Chief Executive, Capita.



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Report by the Comptroller and Auditor General

Investigation into the British Army Recruiting Partnering Project (HC 1781)

Examination of witnesses

Witnesses: Stephen Lovegrove, Lieutenant General Richard Nugee, Lieutenant General Tyrone Urch, Andrew Forzani and Jonathan Lewis.

Chair: Welcome to the Public Accounts Committee on 14 January 2019. We are here today to look at the National Audit Office's Report on its investigation into the British Army's recruiting partnering project, a £1.4 billion agreement that the Army set up with Capita Business Services Ltd. It was set up in 2012 to recruit soldiers in the quantity and quality that the Army needs, and to reduce costs. We have looked quite a lot at the skillsets and needs of the armed forces on this Committee. The contract has not gone terribly well. The number of soldiers required have not been recruited in any year since the contract began, and around half of applicants still take over 300 days to complete the process. Amazingly, the new online recruitment system was over four years late—perhaps that is not so amazing—but it is still unclear who will actually own the system once it is created, when the Army could potentially take it over. We will be looking into that, but, while we have the opportunity with Mr Lewis here, we are also looking at a number of the other contracts that Capita has with the Ministry of Defence, including Annington Homes, which we have looked at before, and the fire and rescue service, among others.

Before we kick off, I will introduce our witnesses. From my left to right we have Jonathan Lewis, the chief executive of Capita. Welcome, Mr Lewis. You are chief executive of Capita per se, so you are not just dealing with the defence contracts; you deal with all Capita contracts across Government.

Jonathan Lewis: That is correct.

Chair: Capita is one of the strategic suppliers. This Committee has had the privilege of seeing the Government papers about all your business with Government, along with the other 26 strategic suppliers' papers. I think they are papers you haven't actually seen, so we might have an advantage over you. It is not all as secret as it was made out by Government.

Next to Mr Lewis, we have Lieutenant General Nugee, Chief of Defence People at the Ministry of Defence—welcome back. Stephen Lovegrove, the permanent secretary at the Ministry of Defence, is now one of the few permanent secretaries without a knighthood, but I'm sure it's on its way. *[Laughter.]* Promise the Prime Minister something; you never know.

Then we have Lieutenant General Tyrone Urch. I think this is your first



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time in front of us.

Lieutenant General Tyrone Urch: It is, yes.

Chair: Welcome to you. You are Commander of the Army Home Command Group at the Ministry of Defence. And then we have Andrew Forzani, chief commercial officer at the Ministry of Defence.

Before we kick off, let me say that all five of you do not need to answer every question; otherwise, we will be here all day. We are very alert to the fact that you are valuable people to the Ministry of Defence in terms of time and money, so if you don't need to answer a question if someone else has answered it; you can always just agree with them. We will direct our questions and aim to keep them short, so perhaps you will keep your responses short as well. We are very familiar with the materials, so we don't need to go through every paragraph of the NAO Report. If you can focus on answering colleagues' questions, that will be very good. Now I'll hand over to Gareth Snell.

Q1 **Gareth Snell:** Good afternoon, gentlemen. I will start with General Nugee and General Urch. Who is ultimately responsible for having signed off this contract within the Army?

Don't all rush at once.

Lieutenant General Tyrone Urch: In March 2012, the contract and a business case was put together by Army Commercial. It was looked at by the executive committee of the Army Board and signed off as appropriate by the then Chief of the General Staff. It was passed to the Ministry of Defence—I am not sure who in the Department would have done that—and then finally passed on to the investment appraisal committee.

Q2 **Gareth Snell:** That is helpful, thank you. From an Army perspective, do you consider the contract to be a success?

Lieutenant General Tyrone Urch: Define success.

Q3 **Gareth Snell:** Okay, let's try again. Do you consider it to be a failure?

Lieutenant General Tyrone Urch: No. On the early years of the contract I absolutely agree with your sentiment that between March 2012, and 2015, something like that, this contract does not look pretty. I think we would all agree that we made some bad mistakes and some errors. The Army must shoulder its fair proportion of those mistakes, and I know Capita would as well.

On the things that the Army got wrong, we are not proud of this but in hindsight—everyone has good hindsight—we did a bunch of things not too cleverly. The top three or four would include the naive approach that we took in thinking that we could subcontract out the idea of an Army recruiting sergeant to another organisation that was not military. That was a failing. Bearing in mind that all our best soldiers were fighting a pretty hard fight in Afghanistan at the time—we lost 59 soldiers killed and nearly 2,000 were injured—I will not say that the organisation that was



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responsible for recruiting at the time was distracted, but it was busy, engaged in training and learning lessons from Afghanistan.

We insisted that Capita use an antiquated IT system, colloquially called DII, run by Atlas if my memory serves me correctly, and we insisted that they go after recruiting and that they had to use that system. In hindsight, knowing how badly DII was performing, that was a big mistake, yet we kind of insisted on it with Capita. They tried to do that for a number of years until 2014.

We allowed Capita, instead of being more persistent, to engage in a centralised call system way of doing business, in Upavon at the national recruiting centre. In hindsight, we lost our ability to nurture our candidates, to look after them and to pay them the attention that they really deserved.

Finally, from an Army's perspective of things that we got wrong, we had a hugely complicated career structure in the British Army—something like 240 career employment groups—and we kind of just naturally assumed that Capita would get on and do that and be able to take that on board. The programme that we insisted on, with 10,000 lines or areas of contract compliance, was just way too complicated.

Chair: I should welcome the Chair of the Defence Committee, Dr Julian Lewis, who is here and listening, just to alarm the panel. *[Laughter.]* Talking of alarming Members—Mr Snell.

Q4 **Gareth Snell:** Thank you for the candid nature of your answer, General Urch—that is quite helpful. Given that you have listed those particular failings, can you give me any comfort that the Army has learned its lesson in how it commissions more broadly from the mistakes that are quite apparent in this contract?

Lieutenant General Tyrone Urch: I absolutely can. I am not sure whether Mr Lewis is going to speak, or can speak.

Gareth Snell: I will get to him in a minute—don't worry.

Lieutenant General Tyrone Urch: I would say that we take equal blame, if I can use that word, in order to deliver this contract. Capita's bid was definitely very ambitious—naively ambitious—and, in terms of the leadership that Capita had on the programme at the time, was not associated with us.

I would say that we probably learned six fundamental lessons. I have gone through three or four of them there, and I give you my absolute assurance that those hard-won lessons have been taken on board by Defence, or by the Army specifically. We have gone after them and put in place a new modus operandi for delivering this programme, and I have a high degree of confidence that by the end of the contract we will be recruiting everybody we need.

Q5 **Gareth Snell:** That is a big commitment from you there. Mr Lovegrove,



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you might want to contribute to this as well. When can we expect to see the first year in the remainder of this contract when the Army recruits its full complement of soldiers?

Lieutenant General Tyrone Urch: It is a staged approach because you cannot expect miracles overnight.

Gareth Snell: No, but it has been seven years.

Lieutenant General Tyrone Urch: At the end of this recruiting year—so March—I believe we will be somewhere close to 60% of the demand that we need to fill the Army's ranks. My personal colloquial way of describing success is that that is a minor miracle without a computer, which we have not had, as DRS was introduced without a pilot or a trial period. That is a fundamental error that we made—trying to roll out a very complicated IT system called DRS, defence recruiting system. Without that system—without the ability to track our candidates through the process—I would determine getting to 60% by the end of this year a success.

To move on, if you will permit me, by the end of next year, bearing in mind the processes we have in place, the governance that we now have and the programme footing that it is on, I have a high degree of confidence that we will get somewhere close to 80%. By the end of the contract, I sincerely hope that Capita will be recruiting the full demand.

Q6 **Gareth Snell:** The Chair will know that the one thing I like most is people who commit to a definite target in a definite timescale. Thank you for that.

Jonathan Lewis: Can I comment on some of those points?

Gareth Snell: Just one moment, Mr Lewis. Can I ask, General Urch, General Nugee and Mr Lovegrove, do you believe there has been any benefit at all in using Capita to recruit over this period that you could not have achieved yourself internally?

Lieutenant General Tyrone Urch: I can honestly say that the benefits that we have accrued with Capita—

Q7 **Gareth Snell:** Such as?

Lieutenant General Tyrone Urch: Some 900 British Army soldiers being released from the recruiting organisation to frontline duty to fight in Afghanistan. That is a huge benefit.

Q8 **Chair:** Sorry, but Mr Snell's question was, would you have been unable to do that without Capita?

Lieutenant General Richard Nugee: No.

Q9 **Gareth Snell:** Why not?

Lieutenant General Richard Nugee: Because Capita replaced some of the people we had. Our recruiting engine at the time was completely in-house, so everybody who was doing recruiting was a soldier out on the streets. By replacing them with Capita in the back office and in the front



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office, we were able to release them. One of the primary objectives of the contract was to be able to release people so they could go to Afghanistan. We released a battalion's worth of troops to the frontline—

- Q10 **Gareth Snell:** That is not really answering the question I asked. Forgive me, General Nugee, but you could have replaced those soldiers with civilians and civil servants internally under your own auspices; instead, you chose to outsource that responsibility to Capita. I want to understand what benefit you have derived from having Capita actually do that, as opposed to having redeployed those soldiers yourself and replacing them with civilians or civil servants. Where is the value added that Capita has brought to this that an in-house service not run by soldiers could not have achieved?

Lieutenant General Richard Nugee: What they have brought to it is, ultimately—not initially, as General Urch has made really clear—a commercialisation that we would not have done ourselves. What they brought was an expertise that we did not have. We did not allow it initially. As was clear, we had a very complex contract. By releasing some of the complexity of that contract, we have allowed Capita to innovate, which is what we should have done in the first place. That has allowed us to improve our systems and have fewer people actually recruiting than the battalion's worth that we took off the frontline.

- Q11 **Gareth Snell:** What I would like to understand is, on the basis that you were bringing in Capita because there was a lack of commercial acumen in the Army to do that directly, what additional resource or consideration the Army is now putting into building that acumen up internally, so that at the end of the process, the system can revert to being in-house and Army-run, as opposed to still being dependent on Capita, which has, in my opinion, not only failed significantly to meet the demands of the contract, but in doing so left our Army with one of the lowest numbers of soldiers that we have had for a long time, which I think is quite a dangerous position to be in.

Lieutenant General Tyrone Urch: I will pick up on your last point, Mr Snell. The Chief of the General Staff and the Chief of the Defence Staff are very clear that the British Army has enough soldiers to keep the country safe and to meet all the demands currently being made of it.

- Q12 **Gareth Snell:** So were you over-recruiting in the first place?

Lieutenant General Tyrone Urch: No, we are recruiting and training in order to deliver a force for future eventualities.

- Q13 **Gareth Snell:** Will you meet that capability? Either you are recruiting at the right amount now—and the Chief of the Defence Staff will be happy that it is sufficient to keep the realm safe in the future, even though you have failed to meet between 25% and 40% of the recruitment, because of the Capita contract—or you were going to be over-recruiting by 25% to 40% within the Army and those soldiers would not necessarily have been needed to meet capability and future demand. It cannot be both.



Stephen Lovegrove: I think it can, Mr Snell. If the Chief of the Defence Staff was here now, he would say that of course he would like to see the Army back up to the targets, but by adjusting the deployment and the work patterns, he is confident that he would be able to discharge all of the defence tasks. That may mean that some of those individuals and the machine in general are running slightly hotter than he would like—I think he would probably agree with that—but it does not mean that the defence tasks cannot be discharged. On the point that you made earlier on, I was not around—well, I was, but I wasn't in the Ministry of Defence.

Gareth Snell: A few civil servants have always been around.

Stephen Lovegrove: I will seek to channel my illustrious predecessors. I would be very doubtful about whether we had appropriately trained civil servants, capable of doing the job of recruiting to the Army, within the Department. That does not alter the point that you make that it may be better to do much of this stuff in-house, but I am not sure that the types of civil servants that we have in the Defence Department at the moment would be the answer to that particular problem.

Chair: I am just going to get some quick-fire questions from Ms Flint, Sir Geoffrey Clifton-Brown and Douglas Chapman.

Q14 **Caroline Flint:** General Urch, you said that it was complicated and there were too many processes going on. Was that led by my military-trained personnel or by civil servants in the MoD?

Lieutenant General Tyrone Urch: Is this in the writing of the contract?

Caroline Flint: No, I think you said that the whole situation became overly complicated. You set the demands of the complicated careers—all the contract. I am a graduate of the armed forces scheme, and I was told a lot about understanding your mission and strategy, so I am trying to understand, was that led by military incompetence or civil service incompetence?

Lieutenant General Tyrone Urch: I wouldn't say it was incompetence in any shape or form. We wanted Capita to deliver the same thing that we had at the time.

Q15 **Caroline Flint:** You admitted yourself that it was over-processed and too complicated, so I am trying to understand who led on that. Was it led by Stephen Lovegrove's side of the Department, in terms of the contract specification, i.e. civil servants and policy people, or was that led by military personnel within the service?

Lieutenant General Tyrone Urch: It was led by the military.

Q16 **Caroline Flint:** Can I also ask, of the 900 people who were released for frontline duty, my understanding is that we have a proportion of the army out in-theatre, a proportion on training and a proportion on leave. That is the way the formula worked. You say we released 900, so where we can use personnel who have military experience, why are we not



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utilising more that period when they are not in-theatre, but when they are at home on training, to support—not necessarily run—the interface with applicants better?

Lieutenant General Tyrone Urch: You come back from Afghanistan or Iraq, or a hard campaign. It is perfectly reasonable to allow the soldiers to have a period of recuperation and time off—I think everyone will appreciate that. There is then a considerable amount of individual retraining that needs to happen. There is a considerable amount of reintegration of new recruits that needs to happen to build a new team. Then they would start off their individual and then collective training processes to get them ready to go back to Afghanistan at the time, if I recall correctly, within 18 months. That is largely the cycle that they were on.

Caroline Flint: But you admitted in your evidence already that there was a naivety in contracting out to non-military and also the centralised call system did not nurture candidates. That would suggest that you do see a role for people with military experience to be an integral part of the recruitment process.

Lieutenant General Tyrone Urch: Absolutely.

Q17 **Caroline Flint:** So you will have to find a way to sort out the numbers, in terms of military personnel still playing a part in this process, while meeting our military objectives overseas.

Lieutenant General Tyrone Urch: That is exactly what we have done now. One of the four pillars of how we have improved the recruiting processes is to introduce a scheme called the target operating model. That basically stops recruiting, in a call centre sense, at Upavon at the national recruiting centre and puts the onus back on to the high streets with our Army careers centres, which travel out and go to schools and colleges.

Caroline Flint: I understand that; we have a very good one in Doncaster.

Lieutenant General Tyrone Urch: We have military and civilian personnel—really high-quality military role models and Capita recruiters—working hand in hand on the high streets to deliver. Having reduced our numbers, we now have sufficient soldiers in support with Capita and enough soldiers to meet our military commitments.

Q18 **Sir Geoffrey Clifton-Brown:** General Nugee, can we clarify these numbers? You talked about releasing 900 soldiers to the frontline. The NAO, in paragraph 2 of the Report, says: “The Army and Capita have worked together to manage the recruitment process, with around 800 military personnel still involved in 2017-18.” How many military personnel are involved today?

Lieutenant General Richard Nugee: I will have to defer to General Urch, who is actually running it. If I might, I would like to answer that in two ways. One, in answer Ms Flint’s comments, is that at the time that we brought this contract in, our battalions were literally coming back, getting ready and going again to Afghanistan. There was very limited scope for



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doing anything other than recuperating and retraining and going back to Afghanistan. We were full blown—we had as many people as we ever had in Afghanistan—when this contract was written. The contract was designed to try to release as many people as possible, so that we had more people who were available, so that we could put more people in to the frontline, so that we could alleviate some of that constant coming back, training and going back to Afghanistan.

Q19 Sir Geoffrey Clifton-Brown: That is a great answer, but it does not answer my question. General Urch, can we have the exact answer?

Lieutenant General Tyrone Urch: I do not know the exact number of military people involved in recruiting. I will find out and get back to you.

Q20 Chair: Was the 900 you released on top of the 800?

Lieutenant General Tyrone Urch: That is people removed from all processes and all stages of recruiting. However, they are not all in careers offices; there would be backroom staff—

Q21 Caroline Flint: Those working on this are not all full time?

Lieutenant General Tyrone Urch: No; there would be part-time soldiers as well.

Q22 Chair: So this is not full-time equivalents? So there were 1,700 individuals involved at some point, but 900 individuals, whether full time or part time—

Lieutenant General Tyrone Urch: We have put some back recently.

Q23 Chair: Perhaps you can write to us, General.

Lieutenant General Tyrone Urch: It is a complicated problem. I do not know the answer of exactly how many there are.

Chair: I am sure we will come on to these numbers with Capita and who they have involved.

Q24 Douglas Chapman: Some of us have come from Defence questions in the Chamber just now. One answer given by the Minister on contracts such as this one was that if an outsourced contractor is not delivering, the Department would take action. You have given some really good ideas about where targets might lie in the future—the 60%, followed by the 80% the following year. What other mechanisms are at your disposal should Capita not be able to deliver on some of the joint targets that you have?

Lieutenant General Richard Nugee: The Secretary of State is on the record saying in the House of Commons Defence Committee that if it came to a view that we had lost confidence in Capita, we would remove that contract. As a result of that, and as a result of a backstop of information that we have always had in case one of these contracts catastrophically fails, we have, if you like, an emergency operation in place of replacing everybody with military. That is an emergency operation; it is good



contingent planning should something happen, but it is not something that we would wish to execute, and certainly not at the moment.

Q25 Douglas Chapman: How long would it take you to actually move from an outsourced contract to an internal contract?

Lieutenant General Richard Nugee: I don't know exactly how long it would take to disentangle Capita should we wish to do so, which we do not—I want to be very clear about that. I don't know how long, but it would take some time to find the troops—we know how many we need—and put them into a recruiting posture. It would take a bit of time.

Stephen Lovegrove: If I may, even in its slightly more simplified form this is still a pretty complicated contract. There are a number of penalty clauses inserted into it that have led to deductions of £26 million from the money that Capita anticipated being paid to it. There are a number of other penalty clauses in there that, should they miss specific key performance indicators, will lead to further deductions. So it is not a binary switch here. There are ways of making sure that we get proper value for money for the service that we are receiving.

Q26 Douglas Chapman: I think that the penalties that have already been paid represent 6% of the overall contract. Is that something that could be altered in any way in the future, or is the contract set in stone on penalties that Capita might incur if you are not reaching the targets that have already been mentioned today?

Andrew Forzani: I think, actually, under the regime we have in place, we have been pretty much deducting the maximum amount since, I think, 2015, when we were able to, so we are using the full force of the performance regime. We think we have been pretty tough on Capita under the mechanism of the contract.

Jonathan Lewis: Let me add that that is very close to 100% of the margin on the contract, and if you add the incremental investment that we have had to make, which is somewhere in the order of £60 million in addition to that to deliver against our commitments, then over the term of this contract, we will lose a very considerable sum of money.

Gareth Snell: That's all right because they are losing soldiers.

Chair: I am going to bring Mr Snell back in, because we want to pursue why these penalties have not actually delivered what they were supposed to.

Q27 Gareth Snell: I have just one more question for Mr Lovegrove and for Generals Urch and Nugee. Who in the MoD and the Army has ultimately been held accountable for this failure and what has happened to them? Have there been any sanctions or disciplinary actions against those who failed here?

Stephen Lovegrove: The contract was let in 2012, I think—2011-12. I think it would be fair to say that the deficiencies in the contract and the fundamental deficiencies in the performance of Capita did not become fully



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apparent for about three years. The reason for that was that, on the one hand, the Army was reducing in size, so there was a good deal of noise around that, and, secondly, that—

Gareth Snell: I'm going to cut you off; I'm sorry, Mr Lovegrove, but—

Stephen Lovegrove: I am seeking to answer the question fully and—

Gareth Snell: If you could seek more succinctly, that would be helpful.

Stephen Lovegrove: I will do so. The other thing is that the campaign in Afghanistan acted, to a certain extent, as a recruiting sergeant in any case. So three years away from our signing of the contract, it became clear that it was not performing. By then, everybody who had been involved in the letting of the contract had moved on.

Lieutenant General Tyrone Urch: The Chief of the Defence Staff, if I may say so, said: "Certainly some people's careers have not" progressed "as they would have liked." That was his statement to the Defence Cttee.

Q28 **Gareth Snell:** So for all we know, the people who were ultimately responsible for having negotiated a contract that, by your own admission, is a catalogue of ill considered ideas, hunches and putting a lot of faith in Capita when there was no real merit in doing so could have been promoted up out of those roles and now be doing other important things.

Stephen Lovegrove: I don't think that is what General Urch said.

Q29 **Chair:** Well, "not progressing as much as they might have liked" does not mean—

Stephen Lovegrove: It is not the same as being promoted out of their existing role.

Chair: No, but nor is it the contrary to that. It does not mean that they were demoted or sacked. They could still have been promoted, just not as fast as they had hoped.

Q30 **Gareth Snell:** So their sanction is not to be promoted as quickly as they othersie would have been?

Stephen Lovegrove: To the best of my knowledge, there is nobody in Defence at the moment who was intimately involved in letting this contract. I joined in 2016, at around the time it was being renegotiated, and I do not know of anybody who was—

Q31 **Gareth Snell:** And there is nobody in the Army, either, who was intimately involved in setting these contracts? I'm looking at the two generals now.

Lieutenant General Richard Nugee: If you look at the personnel individuals they have all left and none of them were further promoted.

Gareth Snell: Okay, that is the answer I was hoping for.



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Lieutenant General Tyrone Urch: I can tell you that I am absolutely accountable now, as of June last year, for the recruitment programme.

Chair: Well, you have set some very clear targets. Mr Snell has written them down and will be carving them into a stone and bringing them back to the Committee over the next few years.

Q32 **Gareth Snell:** Can I turn to you, Mr Lewis, and ask you to look at page 30 of the Report. I know you have seen this; it is figure 9. It's this wonderfully colour-coded graph. Are you proud of that as a record for Capita?

Jonathan Lewis: No. First, let me say that I completely concur with what General Urch said with regard to the challenges of the contract early on. I would add that there are a number of things that Capita didn't do terribly well. We didn't—

Q33 **Gareth Snell:** Are you proud of the record that is displayed in figure 9?

Jonathan Lewis: Of course we are not. We are committed to delivering for our clients, whether in the public or private sector, and I would like to think that what we have done over the last year has addressed many of those issues, and the stats that have been published as of this year clearly demonstrate a significant improvement in the number of applications and people recruited to the British Army.

Q34 **Gareth Snell:** Given that the Ministry of Defence, the British Army, and British taxpayers have spent almost £113 million on this contract, do you believe that Capita has given value for money to the client?

Jonathan Lewis: It is my understanding that the Army will make a material cost saving of more than £200 million.

Q35 **Gareth Snell:** Do you believe that the Army and the Ministry of Defence have got value for money out of the contract?

Jonathan Lewis: If you want a clear answer then yes, and here is why. First, they will see a material cost saving associated with the execution of the scope of work. It is probably more appropriate for the Army to comment on the scale of that, but it is in the order of £200 million.

Secondly, on the point that General Nugee made, we have brought a considerable degree of innovation to the process, whether that is smart apps that enable people to apply in a way that was never conceived, or the 10,000 specifications that we were initially given. We have invested on our own balance sheet, and P&L, including an increment of £60 million in the development of the DRS system. We have shipped out things like smart apps and virtual reality capability to the recruitment centres.

As General Urch said, we have invested in a combination of not only role model members of the British Army, but we have combined them with experienced professional recruiters, all of which is resulting, particularly since DRS has gone live, in a material change in the number of applications. Applications are three times what they were since 1 January



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and the most recent advertising campaign versus the same period last year. A lot of progress has now been made.

Q36 **Gareth Snell:** Mr Lovegrove, do you believe that you have got value for money? I am not looking for a long answer.

Stephen Lovegrove: In narrow financial terms we have made a significant saving of nearly £200 million. On that front, yes. Has the contract been anything like as successful as we want? Clearly not.

Q37 **Gareth Snell:** Mr Lewis, looking at the table in figure 9, you met your targets four times on a potential 228 KPIs. If you had a contractor providing that level of service for you, would you continue that contract?

Jonathan Lewis: That depends on the circumstances involved. Let's look at a couple of the facts. The contract, as has already been described, was very constrained in its specifications. We had more than 10,000 specifications on this contract.

Q38 **Chair:** But you took on the contract with those specifications, and with your eyes open.

Jonathan Lewis: We did, and as a good partner we should have pushed back on many of the assumptions that were being put forward, not just the degree of specification.

Q39 **Chair:** Why didn't you push back?

Jonathan Lewis: Because I think that at that point—we are talking a number of years ago—there was a different leadership team in place in the company, and we were chasing revenue. We were more interested in booking additional contracts versus being a true partner to, in this case, the Army. That was one of the fundamental reasons why a month before I joined Capita in 2017, the first customer I went to see was General Sir Nick Carter in Andover to reset the basis of the working relationship between ourselves and the British Army.

Q40 **Gareth Snell:** I have the same question that I asked the General and Mr Lovegrove. Who in Capita has been held responsible for the utter failure of this contract, and what has happened to them?

Jonathan Lewis: No one on this contract at a senior level was involved with the contract in its early days, and 80% of Capita's overall leadership, as of the date I joined on 1 December last year, is new, and 44% of the management team below that are new. There has been wholesale change of the leadership team.

Q41 **Gareth Snell:** So can you give me an assurance that nobody who worked on this contract is currently working on any other Government-related contract that you may either be pursuing or implementing?

Jonathan Lewis: That is a very broad statement. I am not sure I can give that assurance because hundreds of people are working on this contract. Is there anyone in a senior role at Capita today who was on the



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Army recruitment contract and is now in a different role? I am not aware of anyone.

- Q42 **Gareth Snell:** General Urch gave some clear targets. He reckons that by March 2020—it will be 80% by the end of the contract and then almost 100%. Are those figures you are confident you can meet?

Jonathan Lewis: They are numbers that we agreed—

Gareth Snell: That is not what I asked. Are you confident you can meet them?

Jonathan Lewis: Yes, and I would add I have made clear to my leadership team my expectation that we will do better than that.

- Q43 **Gareth Snell:** If by the end of the contract those targets have been met, what will be the total profit that Capita has made from this contract?

Jonathan Lewis: For reasons that I have already articulated we will never make it.

- Q44 **Gareth Snell:** So whatever the outcome is, Capita will make no profit.

Jonathan Lewis: Correct, and I am very confident, by the way, that we will hit the targets by the end of the contract.

- Q45 **Gareth Snell:** What have you actually learned about the way Government contracting works, and how have you applied that to your other contracts?

Jonathan Lewis: This is a conversation we had in the summer, when, at this forum, I was asked to talk about our views on Government outsourcing—strategic sourcing. I do not think it is worthwhile repeating all that now. What I will say is that I and others have been very engaged with the Cabinet Office in the development of the ideas around Project Santiago, which is how we revisit the development of contracting relationships between the Government and the private sector. I am very encouraged by what I see because, frankly, many of the lessons we have learned from this contract and others are being implemented. The critical one for me, particularly on a first-generation contract of this nature, is that we should have piloted. That is No. 1. No. 2 is that we should have tried much harder to simplify that which we were being asked to do. This is an extraordinarily complicated recruitment process, and we should have challenged that a bit more.

The fundamental change that took place following the meeting with General Sir Nick Carter in November last year, which was implemented as a series of orders to the Army in April, is the establishment of an effective partnership between the parties. You cannot outsource to a third party and assume that the job is now done—that you have outsourced to party X and it is for them to deliver. There has to be an ongoing partnership. There has to be a zippering up of the organisations, as I call it. There needs to be a governance body. There needs to be utter clarity around what you are holding the outsourcer accountable for versus what you are holding the Government accountable for. That is mutual. That is precisely



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what we, with General Urch, have put in place, and I would suggest it is fundamental to the dramatically improving statistics we now have on the contract.

Lieutenant General Tyrone Urch: I would add two things, if I might. Of the four pillars I mentioned, that is two that Mr Lewis has mentioned. I would reinforce the point I made about this being on a programme footing—eight lines of operation, from policy to entry policy to branding, all the way through to the lived experience of our soldiers. Those eight lines of operation come together, with me as the accountable officer, every single month at a programme board to answer and be held to account to me and a three-star Capita representative who jointly chairs the programme board with me. Without getting into the detail, with the streamlining of policy and processes that the British Army and Capita have done in parallel, it does not look anything like the RPP contract on recruiting that we took on in '12, '13 and '14. It is a completely different organisation now.

Q46 **Chair:** Everyone says, "It was bad then; it's good now." We hear that all the time. What is depressing for us as a Committee is that in 2012—or when this was let, which was probably just before then—these are the lessons that we on this Committee knew, that people across Government knew and that Mr Lovegrove, in fact, in a previous incarnation, was helping to improve, yet this contract was let so badly. Mr Lewis, you talk about the cleansing at the top of Capita and how it is all going to be fine now because you have a different approach, but wasn't it a big fat corporate let-down that you rushed in to take this contract even though it was clearly a challenging one? It was a bad client, and you have come in—

Jonathan Lewis: Can I suggest that this Committee might get a somewhat biased perspective of how effective outsourcing is because the only contracts that come to this Committee are—

Q47 **Chair:** I didn't say we are against outsourcing. We do not have a position on the policy of outsourcing, particularly. We are just here to look at the ones that have gone wrong. This has gone spectacularly wrong, and you acknowledge it was a big problem.

Jonathan Lewis: I think my point is still true. We—Capita—are green on 94% of KPIs across central Government. This is one of the contracts where we are not green.

Q48 **Chair:** We have seen the exact working of all that. Do you have a living will at the moment for this contract?

Jonathan Lewis: We are putting one in place. Actually, we are one of three pilot companies that have committed to—

Q49 **Chair:** So you haven't yet. When will it be ready?

Jonathan Lewis: That is not in our gift. That is something we have committed to do with the Cabinet Office, and we have stuck our hand up ahead of any of our peers—



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Q50 **Chair:** You say it is not in your gift, but you must have an idea corporately, if you have been working on this, how long it will take to work out how much—

Jonathan Lewis: It will be some point in 2019, hopefully in the first half.

Q51 **Chair:** Some point this calendar year?

Jonathan Lewis: Yes.

Q52 **Gareth Snell:** This is the last little point from me. The NAO says that almost a third of applicants took almost 400 days. That sounds to me, Mr Lewis, like a fundamental problem with the system. You said earlier on that these problems were not apparent for three years, but almost immediately after you took over the contract, the time from people applying started to go up. What is the figure that you will be working towards in terms of the contract? You say you will meet the recruitment targets. Can you give an assurance that you will meet those recruitment targets within a suitable timeframe that doesn't mean that 47% of those applying drop out because of time wasted?

Jonathan Lewis: You are making an assumption, there, that 47% are falling out because of time wasted.

Q53 **Gareth Snell:** You tell me I have got it wrong, so why are they, then?

Jonathan Lewis: Let's look at some facts. We have what is called a conversion ratio of 7.3:1 today. That means one out of every 7.3 applicants to the British Army is accepted and given an offer. On average that takes 205 days, today. We have done it in 22 days, but that is clearly dependent on such things as GPs willing to issue medical letters—

Gareth Snell: My colleague is going to cover some of this.

Jonathan Lewis: But it is also clearly dependent on the propensity of the individual concerned to pace themselves through the process. We know that up to 50% of 17-to-35s in the UK are not fit; they are not sufficiently healthy to meet the Army's medical requirements, so many of them will apply and then spend time getting to a point of fitness such that when they go through the assessment process they are able to join the British Army.

Q54 **Gareth Snell:** Mr Lewis, you have deflected to suggest that I don't understand my facts, so let me ask you a very simple question. What analysis has Capita done of the 47% that drop out, to ascertain what their reason for dropping out was?

Jonathan Lewis: We have done a considerable amount of research—

Q55 **Gareth Snell:** No. Considerable is not—quantify it for me.

Jonathan Lewis: I am not sure I have the data by category, but I will tell you that what we control as Capita is the process from application to offer. We do not control the process from offer to entry into the British Army,



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because that is dependent on when the next cohort can be taken in for basic training.

- Q56 **Gareth Snell:** So have you tracked one of those people that have voluntarily dropped out? You have spoken to them—you asked them why? Do you have any of that information?

Jonathan Lewis: Of course. One of the beauties of the DRS system today is that for the first time we have the analytics by which we can now do that. We never had that. The Army didn't have that previously. We didn't have that previously. I will tell you, to give you an idea of the level of analytics we have, we have done a huge amount of work to target the profile of those individuals who want to join the British Army to the point where we can give a probability by postcode across the entire UK of those most likely to join. We are targeting resources on that basis and tracking them through the process.

- Q57 **Gareth Snell:** That is lovely, but my question specifically was—because you said we didn't necessarily have our facts right, so I am going to find out what facts you have—of the 47% that are voluntarily dropping out, what work, what follow-up and what data do you hold to demonstrate that they have voluntarily dropped out of the process not because of the delays in the processing?

Jonathan Lewis: Of the 47% we know that 42% are falling out for reasons of health. We actually believe that those who are falling out as a function of the process itself is single digits at best. The other challenge we face, of course, here, is this broader health issue and the delay between giving them an offer and them entering the Army.

- Q58 **Gareth Snell:** Would you be able to write to us with a specific breakdown of that 47% and what data you have?

Jonathan Lewis: We will be delighted to do that.

Gareth Snell: Also I would be interested to know what the methodology is for obtaining that data.

- Q59 **Chair:** We understand you—corporately, you all—only knew this drop-out rate figure a year ago.

Lieutenant General Tyrone Urch: We subcontracted out to a consultancy to come in and do a pretty substantial science project, which reported in November '16. That is the first time that we had data at every single stage of that process.

- Q60 **Gareth Snell:** So you are saying it took seven years, in which there was a consistent pattern of targets being missed for recruitment and drop-outs and delays in recruitment, before you thought, "We'd better try and find out what is causing this." Seven years?

Lieutenant General Tyrone Urch: I will start from the beginning. In 2012, 2013, 2014, 2015, we are fighting a fight in Afghanistan. Recruiting is not our biggest problem; our problem is training. The organisation that does recruiting and training is one and the same thing, so one of the really



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powerful lessons that we have learned is to separate the general who is in charge of recruiting and the general who is in charge of training. I want to give you some assurance that we have learned that lesson for the first three years and we now have two separate generals, one of whom reports directly to me for recruiting.

We then enter a period in about 2015-16 where the Army is restructuring. It is reducing by 20%, from 102,000 to 82,000. At the same time, we are concentrating on our reserve force, for a public ministerially endorsed mandate to get to 30,000. So we have moved lots of resources from training and recruiting regulars into reservists. It would be wrong to say we took our eye off the ball, because that would imply negligence. We did not take our eye off the ball, but we just started to concentrate on the reserves. That process took about a year before we were confident we were going to hit the Prime Minister-endorsed target of 30,000. We then start realising in about late 2015—based on that scenario and that sort of narrative, if I might—that we've got a problem.

Q61 **Gareth Snell:** I am sorry, but figure 1 on page 14 shows the recruitment of regular soldiers against targets and it shows that in 2013-14 you missed that target by almost 30%. Was that not a red flag at that point?

Lieutenant General Tyrone Urch: We had enough soldiers to fight in Afghanistan—

Q62 **Gareth Snell:** That wasn't my question, General.

Lieutenant General Tyrone Urch: And that allowed us to have—Was it a red flag? I don't know; I wasn't there.

Q63 **Chair:** What you were up to then in Afghanistan is one thing, but it's the pipeline coming through, and surely someone was watching that. However, you're saying that you're not sure because you weren't there.

Lieutenant General Tyrone Urch: The same person was watching that number and that recruiting through-flow—that pipeline—as was in charge of collective training.

Q64 **Chair:** Mr Lovegrove, what about at the top of the Department—who was watching there?

Stephen Lovegrove: I'm afraid I can't answer that question, Chair—

Q65 **Chair:** When Ministers talk about recruitment and they ask for a brief, out comes a submission saying, "Minister is asking," who is writing that and who is signing that off in your Department?

Stephen Lovegrove: Now, and certainly since I have been in the Department, that information would be coming up effectively through the Defence People chain, run by General Nugee.

Q66 **Gareth Snell:** But Mr Lovegrove, I suspect that if I was to check *Hansard*, there would be umpteen parliamentary questions in 2011-12 and 2012-13—I could probably tell you the Members who submitted them, because they still submit them to this day—asking questions on the recruitment



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figures. Are you honestly saying—I turn to you, General Urch—that nobody thought to look at this trend, and that it was only when you stopped being in an active warfare situation in Afghanistan that you thought, “Ah, this might be a problem,” because actually the numbers in previous years, in terms of missing the target, were more stark than they were in 2015-16?

Stephen Lovegrove: I’m afraid I simply cannot tell you what the conversations within the Department were in 2012-13. I can tell you that since 2016, when I joined the Department, this particular subject has been very, very much at the top of everybody’s mind, and there has been vigorous management of this contract in order to be able to get it back on track.

Q67 **Sir Geoffrey Clifton-Brown:** Mr Lovegrove, I am concerned about the people who have to go through this process. Figure 7 tells us that for 54% of the people who go through this process it takes over 300 days—in other words, almost a year. I think that if you or I were applying for a job and we knew it was going to take a year for our prospective employer to make a decision, we wouldn’t bother to apply. Isn’t that part of the difficulty?

Stephen Lovegrove: I am very clear that the time of flight, as it is known, is too high for the Army in particular and that there is a degree of streamlining in this process that needs to be aggressively pursued. It’s a complicated subject; Mr Lewis has talked about some of the complicating factors. It’s also a subject where we need to take a tri-service approach, because there are certain efficiencies that we might be able to get out of that.

However, the Secretary of State has been very clear, as indeed are we all in the Department, that those numbers at the moment are too high, and we are working hard to bring them down. I’ll hand over to General Urch, who is obviously much better—

Chair: Briefly, please.

Lieutenant General Tyrone Urch: You are absolutely right that the amount of time it takes to get a job offer from Capita is 205 days, and that is way too long for those people who want to move through the system more quickly. I have met plenty of soldiers who are really happy with going through the system in about 700 or 800 days. It is about choice, but for those who want to go through the system more quickly—bearing in mind that the average time of flight for officers is three or four years by the time they get a job and get to basic training at Sandhurst—it is not fast enough.

We have introduced a model that we are piloting right now in the south of the country where 25% of our applicants go through our assessment centre at Pirbright. We are practising and trialling a whole bunch of really robust initiatives to cut that time of flight down to around three months, by taking more risk at the beginning and doing more things in parallel, rather than in sequence. Our first five or six soldiers who have just gone



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through that pilot have all gone through in less than 88 days. The top candidate went through in 69 days, and our fastest candidate went through in 22 days.

I want to leave you with the confidence that we have this. We just need a little bit of strategic patience for these procedures and this time-of-flight trial to be rolled out properly.

- Q68 **Sir Geoffrey Clifton-Brown:** Can I just cut to the chase, to what I think is probably one of the problems? Figure 6 on page 25 of the Report seems to show that it is taking six months to weed people out on medical grounds. Is that not far too long? Why are people not weeded out on medical grounds within a week or two?

Lieutenant General Tyrone Urch: There are two very strong schools of thought. One is that you should get as many recruits into basic training as possible, training them all the way through that process, and accept a bigger drop-out rate at basic training. That is expensive and is not a good recruiting experience for our people.

We have tried to do that process a lot earlier in the process by getting hold of primary healthcare records at a much earlier stage; we are absolutely on to that sticking point of medical documentation. In some cases we now accept soldiers on risk of what they have said and their medical examination, rather than getting after their GP documents and waiting for them to catch up.

Lieutenant General Richard Nugee: Those going through the medical system are coming into a medical service that is not the NHS, because we are not the NHS. We have to persuade the NHS that we are able to take electronic records from the NHS into the Defence Medical Services, which operates the medical screening.

We recently agreed with NHS Digital that they will transfer NHS records for individuals into our systems digitally, rather than our waiting for a signature and then something through the post, which takes a very long time as it relies on the NHS GP to send it. We have recognised that that is a very significant problem. By getting the NHS to agree that we are a bona fide GP, to all intents and purposes, they can now transfer records, because doing so between GPs within the NHS is relatively easy because it is all one system. We will shortly get NHS Digital records that we can look at much more quickly. It is absolutely something we have recognised. How long it is taking is unacceptable.

The other thing we are doing is looking at the value of the online medical questionnaire. The Navy, for example, has a triage system: a nurse rings up a potential candidate and asks a series of questions. We are looking at what effect the triage is having. At the moment, we have almost a 100% correlation between what the nurse says about whether somebody will pass and what the doctor at the actual medical assessment centre says. If that is right, the question for us is: is triage all we need to do? Is that a way we could go to significantly improve the system? Or can we get rid of



the online medical questionnaire altogether, to try to speed up the system? This is something that we are putting a lot of effort into, because you are absolutely right: it is unacceptable that the medical side of it is taking so long.

- Q69 **Gareth Snell:** General Nugee, that is very interesting about the primary care record system and how it integrates with the military system that you need. Mr Lewis, am I wrong that you, as Capita, run the primary medical records service for the NHS?

Jonathan Lewis: We're not responsible for NHS Digital or the—

- Q70 **Gareth Snell:** No but you are the organisation that actually sorts out medical records for GPs. Is that correct?

Jonathan Lewis: A subset of what has just been described, yes. We do not have overall responsibility for the records. That is managed by NHS Digital.

- Q71 **Anne-Marie Trevelyan:** It is very nice to see you all. I have come with an unfair advantage because, as General Urch knows, I was actively involved on this when I was PPS-ing for MinAF.

Chair: A very warm welcome back to you.

Anne-Marie Trevelyan: Thank you very much. It is very nice to be back. Mr Lovegrove, at a broader level, why use a contractor rather than do something in-house and then tell them exactly how you want it done? It doesn't make any sense to me at a business level. Is that something that you still do as a policy?

Stephen Lovegrove: No it isn't, and I share your view on that. I think the approach that we are taking to outsourcing, which is a very complicated landscape, is becoming—I hope—increasingly mature and sophisticated. I wouldn't put this particular contract into the category of a mature and sophisticated one when it was assigned.

I think the kinds of contract that are sensible to think about outsourcing are ones where there is comparatively lower risk activity; where the specialisation does exist outside the Department, to go to your point; where we understand the financing flows and the strength of the covenant of the outsourcer; where the tasks involved are susceptible to contractual expression, which I am not 100% sure they were all the time in this contract; and where we understand that we have a good contingency plan—unfortunately that is becoming increasingly important for some of these contracts.

Where it is not appropriate is where there is policy responsibility that has to stay with the Department—we can't outsource that; where it is a very fluid environment where strategies are changing quite often, which is difficult for outsourcers to deal with; where it is overly complex; where there is a strategic management function; where there is quintessentially state business—I think recruiting to the armed forces, in certain aspects, where the recruiting starting point, is an important one; or where there



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weak companies with weak balance sheets, because that produces risk in the system.

Not all of those realisations were perhaps as clear in 2012 on this particular contract. The work that is going on with the Cabinet Office, and certainly the work we are doing in the MOD at the moment, is definitely trying to apply that kind of framework to the outsourcing decisions that we make. The other key one is value for money. We are not going to do outsourcing if it is not value for money, and that is one of the issues we have had with our civilian workforce questions as well. I think it is better, but it is a complicated subject and I think we need to bring a more sophisticated, conceptual commercial framework to it, which we are seeking to do at the moment.

Q72 Anne-Marie Trevelyan: That is encouraging. Can we be hopeful to see fewer MoD contracts that are not working properly in the future?

Stephen Lovegrove: I would very much hope that that is the case. I have to say that the DIO contract—I am sure that we will get on to it later on—

Anne-Marie Trevelyan: We will. As I am here, of course we will.

Stephen Lovegrove: That was one of the first contracts that I had a look at when I arrived in the Department and I think it fell foul of some of these things. We have changed it—well, stopped it.

Q73 Anne-Marie Trevelyan: Good. Mr Lewis, you said you sat down with CDS when you took over your role in 2017.

Jonathan Lewis: Before, actually.

Q74 Anne-Marie Trevelyan: When he was CDS?

Jonathan Lewis: No, before I joined.

Q75 Anne-Marie Trevelyan: Very good—even better. Why is it that, as you just said, you have a KPI that is predicated on the soldier actually becoming a soldier, but the only bit of influence you have is up to the offer point? It is a very odd contract to me, which does you no service and is not your fault. Why did you not look to renegotiate that part of the contract at that point?

Jonathan Lewis: First, I agree with what you are saying. Secondly, I think it goes back to some of the points we made earlier on. This was being bid for in a competitive process, at a time when the previous leadership in Capita were very determined to win a piece of work. They were under pressure to win work.

Q76 Anne-Marie Trevelyan: But by the time you get to 2016 and it has been awful for a while, and you have come in and seen that.

Jonathan Lewis: I came in late 2017.

Anne-Marie Trevelyan: There's a point at which you are being kicked



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and kicked on KPIs and failing to meet them, as Mr Snell showed in a particularly spectacular orange and red graph, but a lot of them—it is rare that I would say this with other panels—are KPIs that you cannot possibly meet because they are not under your control. It is a very odd contract to agree to, when you were revising it, and to maintain that position. Did you not have that conversation, and say, “Why are we still being made responsible for things we can’t control?”

Jonathan Lewis: My first conversation with General Sir Nick Carter was that it was not working and how could we fix it. As the incoming CEO to a company that had a couple of problematic contracts with the Government—PCSE, on which we presented at this forum previously, being the other—my commitment first of all was to ensure that we had the working relationship between ourselves and the Army, to put it right. I would suggest that we have actually put commercial factors to one side, demonstrated good will and committed to fixing that which we bid on nine years ago.

Q77 **Anne-Marie Trevelyan:** Which will stand you in good stead with the Cabinet Office in that bigger picture, I am sure.

Jonathan Lewis: I would like to think—hopefully we will get on to some of the stats in a minute—that that commitment, i.e. putting the commercials to one side and partnering with the Army to deliver on this contract, is working.

Q78 **Anne-Marie Trevelyan:** Is Capita signed up to the Armed Forces Covenant?

Jonathan Lewis: Yes we are.

Anne-Marie Trevelyan: Excellent, so if you do not make a profit, you are at least meeting your commitment to assist in the armed forces that way.

Jonathan Lewis: We are investing in the MoD.

Q79 **Anne-Marie Trevelyan:** Indeed, you probably are. What are the blocks that are still in your way, as far as you are concerned, to being able to meet those KPIs, so that maybe next year or the year after we can see a lovely green set of statistics?

Jonathan Lewis: 2018 was a year of deep reflection on the part of the partnership—both members of the partnership. Whether it is the work we have done around what are some very innovative marketing campaigns, what we have done around the data analytics to understand where to target, the final implementation—admittedly late—of DRS, or the target operating model, which I think is now well defined, I would like to think that the fundamentals for success are in place. Again, the stats are starting to show that.

Q80 **Anne-Marie Trevelyan:** You mentioned targeting locations. I do not know who is best to answer this, but there was a substantial number of closures of recruitment centres, a lot of them in what all of us would instinctively say were good recruiting areas: Glasgow, the north-east and



the north-west. Was that your decision or was that a military decision?

Jonathan Lewis: I honestly do not know the answer to that question, but I will say that by far the majority of the target audience that we are seeking to recruit in the British Army are within a 45-minute drive of a recruitment centre. For those parts of the world, such as where I hail from, where there is not a recruitment centre, we have a mobile capacity that goes in at predefined dates and we recruit from that mobile facility at those locations.

Q81 **Anne-Marie Trevelyan:** General Urch, do you know why there was such a reduction in the northern recruitment centres?

Lieutenant General Tyrone Urch: Yes, I do. It was at a time when rationalisation of the defence estate was very topical, which I know you will recall. We elected to close 68 Army career centres, largely in high streets and in rural areas. It was a ruthless investigation on a cost-benefit analysis of what they were doing. They just were not delivering the number of applicants and candidates that we needed.

Q82 **Anne-Marie Trevelyan:** Working on the basis of the statistics that were coming out of a bad system that was not working properly at the time.

Lieutenant General Tyrone Urch: We had lots of areas that were doing very well and concentrated our efforts on those areas.

Q83 **Chair:** You say they were doing very well, but without the figures, statistics and analysis, how do you know?

Anne-Marie Trevelyan: I will give you an example. There is a lovely recruiting centre in York, but there is only an Army person there, there is no Navy or RAF, so if you want to join the other two services, you are told to go to Leeds, which is a train-fare away and the chances are, if you are 17, you have not got it. The one in Newcastle is 80 miles away and a very expensive train journey from Berwick. There are some Scottish examples of the same. Those are areas where the opportunity to join the armed forces is a life-changing opportunity for those young men and women, but it is really hard to access. Particularly considering that the north-east, which I know well, has churned out something like 30% of the Army over the last 100 years, you have taken out huge numbers of opportunities for those young men and women. How will we still reach them without those centres on the high street?

Jonathan Lewis: The 68 centres we have across the UK today is not set in stone.

Anne-Marie Trevelyan: Can I have one back, thank you very much?

Jonathan Lewis: The beauty of the DRS system is that we will know precisely where people are coming from and their propensity to join the British Army. If we have to revisit where we have recruitment centres, with or without the other two armed forces, we will do that.

Q84 **Anne-Marie Trevelyan:** On what basis will you make that decision? Lots of girls apply from Berwick-upon-Tweed, because I talk about it a lot, but



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there is nowhere for them to go, so they do not get beyond showing a level of interest. At what point do you pick that up and realise that you are missing a trick, or that they are missing a trick, in fact?

Jonathan Lewis: It will be driven by the data that is generated by the system.

Q85 **Anne-Marie Trevelyan:** Which you are looking at monthly. Who is looking at that data?

Jonathan Lewis: We won't establish a fixed recruitment centre in a town on the basis of a month's data; it will probably be three, six or 12 months' data. Can we reprioritise where the mobile recruiting centre capability goes on a monthly basis? Absolutely, we can and we should do.

Q86 **Anne-Marie Trevelyan:** Or, indeed, is there an opportunity to look forwards? I have a 19-year-old; he can go into a recruitment centre, or, to be honest, you could stick him on a train and send him down to Pirbright, where he could meet a load of real soldiers and talk about all the different trades all in one place. Is the recruiting centre actually an outdated model?

Lieutenant General Tyrone Urch: That's a great question. I don't know what the proportion is, but the propensity of 16 to 24-year-olds is not to walk into Army careers centres or armed forces centres to join the Army at all. The way we are doing it is really by using the Army careers centres as a focus in order to get into schools and higher education organisations, as a hub-and-spoke methodology, but young girls and boys are joining online, on their phone. That is why the app and being able to do those things is so important. Part of the trial we are doing at the moment—the time-of-flight trial, operating out of Pirbright—is, as you quite rightly say, that the first time they even see somebody might be at the assessment centre. We might just move them there and miss out three or four stages in that process.

Lieutenant General Richard Nugee: Part of the justification for closing those centres was that we would be a more digital recruiting organisation and therefore could afford to close them. The fact that we did not become a more digital recruiting organisation until after we had closed them is a matter of deep regret, but that was the intent—that we would actually be able to cover it through digital means.

Q87 **Sir Geoffrey Clifton-Brown:** General Urch, you or your predecessor closed these offices in 2013. They were closed on the basis that there was going to be a computer system in place. In fact, there was not a working computer system in place until 2017. May I put it to you that it was not only the Afghan war that was the cause of the problem? The cause of the problem was that nobody knew what was going on, because the offices had been closed and there was not a computer system in place that could tell you what was happening on the ground.

Lieutenant General Tyrone Urch: I think that is very fair.

Q88 **Sir Geoffrey Clifton-Brown:** Why was that the case? I will put it to you,



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Mr Lovegrove. How could the accounting officer at the MoD, your predecessor, not have known what was happening in those three years?

Stephen Lovegrove: I cannot answer that question, Sir Geoffrey. There is no disputing, though, that the inadequacies of the computer system that we insisted Capita use were a grave error.

Q89 **Anne-Marie Trevelyan:** So we are going digital, and it has been a hard road to get here, but you launched just a few weeks ago a rather exciting campaign. I think it's brilliant; lots of people—lots of colleagues round here—think it's awful. I would like to ask you, General Nugee, which one were you: snowflake, selfie addict, me-me-me millennial, phone zombie or binge gamer? When you were 18, which one were you?

Lieutenant General Richard Nugee: Well, most of those didn't exist when I was 18, I have to say.

Anne-Marie Trevelyan: There were similar characteristics.

Lieutenant General Richard Nugee: If you're asking a personal question—

Anne-Marie Trevelyan: I am asking a personal question.

Lieutenant General Richard Nugee: I was what we now call a core intender: I decided to join the Army at the age of 15, as a result of an experience I had at the age of 15. So I was none of those because—

Anne-Marie Trevelyan: You were already hooked.

Lieutenant General Richard Nugee: I had already looked and decided that I wanted to join the Army at the age of 15, and I have been committed ever since.

Anne-Marie Trevelyan: That's a very good answer. General Urch?

Lieutenant General Tyrone Urch: I think it's a really, genuinely amazing campaign—

Anne-Marie Trevelyan: So do I.

Lieutenant General Tyrone Urch: —because the advertising campaign, the recruitment campaign, has nothing to do with those posters, really. The posters are designed to start a debate—

Anne-Marie Trevelyan: And they have.

Lieutenant General Tyrone Urch: —and in my experience, with the people I have spoken to—it's reasonably limited—the only people who don't like them are too old to join the Army, have been in the Army, are senior people in the Army or are retired from the Army, largely.

Jonathan Lewis: And had to google snowflake. *[Laughter.]*



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Lieutenant General Tyrone Urch: They were genuinely designed to start a debate. Thankfully they did just that. The posters started the debate. The TV ads, which I think are amazing, are genuinely inspirational and really good. We have then—

Chair: We've seen the advert. You're doing a good advert for the advert.

Q90 **Anne-Marie Trevelyan:** Which one were you? Were you also a core soldier from a young age?

Lieutenant General Tyrone Urch: I was in the cadets at 12; I was going to join the Army.

Q91 **Anne-Marie Trevelyan:** But the reality of the advertisements is that they are talking to absolutely the most digitally savvy of our 12 to 18-year-old brigade. You may remember what's coming here: a lot of those young men—probably most, although perhaps there are some selfie addicts who are girls, too—are probably, even if not diagnosed, on the autistic spectrum. They are ASD; they have characteristics of intensity of focus. They are a particular group that you actually really need in the recruiting areas that you are looking to fill—not perhaps the engineer or, indeed, the Royal Marine, who is willing to do death at close quarters. But you need this group of people. Have you changed the medical framework so that they can come through the system now?

Lieutenant General Richard Nugee: We are changing. We are changing specifically—we are using it, if you like, as a pilot scenario—those we are recruiting in cyber. As somebody put it, the nexus between somebody being able to run up a hill at the right speed and being brilliant on a computer is relatively small. What we are after is people who are brilliant on a computer, and that is absolutely on the spectrum. We are looking at how we can articulate that for our cyber force so that we can bring in people who are not necessarily capable of doing all the derring-do that the Royal Marines can, but are capable of running a cyber force. That is exactly what we are looking for. Once we have developed "How far do you go?" for the cyber force—that is a question we need to be able to answer—we will be rolling it out to those areas where we think it will have advantage.

Q92 **Anne-Marie Trevelyan:** That is another line for the system to have to assess—a line of code early on in the process.

Jonathan Lewis: It is. Mr Snell, you rightly asked a question earlier in the proceedings about what Capita brought to the table here. That marketing campaign and the analytics behind it to know where to target and how, was Capita.

Q93 **Chair:** Was that part of this main contract?

Jonathan Lewis: Yes, it was.

Q94 **Gareth Snell:** That is fair enough. You brought that. You would accept though, Mr Lewis, that you are not uniquely able to do that as an organisation.



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Jonathan Lewis: We are Europe's largest human resource outsourcing service provider. This is not a part-time exercise for us. We have a very substantial position in the market for HRO. This end-to-end recruitment through to management training and development benefits is something we do on a very large scale, so it is bringing all that together with an underlying digital infrastructure—DRS—

Gareth Snell: I can't give you a contract so you don't have to pitch to me, Mr Lewis.

Stephen Lovegrove: The point you make about the different types of people we will have to attract into the services is one we are wrestling with in a number of different dimensions. There is an interesting debate we are having, again with the Cabinet Office, who are ultimately in charge of the policies on this—around vetting as well, where there are complexities about ensuring that our existing vetting standards allow those kinds of individual into the system. I think we are going to have to change some of that as well.

Q95 **Anne-Marie Trevelyan:** I will raise with you—I have an unfair advantage because I was sitting in meetings with these two generals on this subject—that there are a number of very senior members of your military cohort who are definitely, without question, on the spectrum. They are very senior. They have had an ordinary military career—a very successful one. They would have been filtered out, because at 15 or 16 the education system, had it existed then, would have identified particular teenage issues—that is what they would have been called. They are not going to be spooks who go off the line. So it is a much broader question to suggest that simply because it is now a diagnosable thing, you, as the military, are missing out. It is a mindset that you choose yourselves.

I am really concerned that you are not filtering. You have started an advertising campaign that will target them. It is doing that, I can tell you. They are amused and intrigued, and let us hope that if they apply they will not fall off the cliff. But you are missing out. It feels to me that in the Army—perhaps not the Navy or the RAF—you are still looking for infantrymen, fundamentally. How can you reassure me that that is not the case? In 20 years' time, these young men and women are going to be sitting in front of us and they will be running a completely different military force. How can you assure me that you are really being broad enough with the young men and women you are recruiting?

Lieutenant General Richard Nugee: We have already relaxed the mental health standards, not by lowering them but by widening them. We have already done that across all three services, to try to encourage as much of this as we possibly can, bearing in mind that we have opposition from our own medics, to a certain extent, as to the risk we are prepared to take in some of these areas. We need to fight through. To get to your answer and what you rightly say is the sort of area we should be going into, we need to justify it to our own people, who set the policy that our medics then operate against.



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So we have already changed the mental health standards and we are changing other standards—not lowering them but allowing a wider breadth of people, with certain issues, to come in, because medicine has moved on and we are prepared to take more risk to get them into the training space. Then, ultimately, it will be decided in the training space whether they are suitable. I have run three medical employment symposiums to try to get at making it easier, from a medical perspective, for people to join, and that is having material effect.

Lieutenant General Tyrone Urch: I was just going to reinforce that. The way I have described it—at least to myself—is that we have widened the hopper of society by reaching out to those non-core intenders. That is what this is about—not paratroopers, because they are going to be paratroopers. That is a great series, but they were always going to be that. It is reaching the non-core intenders by widening the hopper.

The entry standards to the British Army—the field Army—have not changed. I acknowledge that we will probably have to spend a little bit more time, and maybe more money—certainly more effort—to get those young girls and boys fit, because we have widened our criteria. We have not lowered our standard. We have modernised our musculoskeletal and mental health standards. We have raised age and BMI to widen the pool who come into training. We run pre-conditioning courses, which we never did in 2012, 2013, 2014 and 2015, to get them ready to start basic training. I think it is wonderfully modern, and the standard into the field Army has not changed. I would say that there is still more work to do, probably.

- Q96 **Sir Geoffrey Clifton-Brown:** General Urch, I am wondering whether you are going to have to change your medical standards for a certain cohort in the British Army, which has these specific cyber-skills. There may be some people, as Ms Trevelyan says, who are on the spectrum and would never meet the current medical standards.

Lieutenant General Richard Nugee: Sir Geoffrey, can I answer that? That is absolutely my responsibility, and that is exactly what we are doing. That is why I mentioned cyber. We are looking at taking it outside our existing standards. We are taking a huge amount of advice from the agencies and other areas to look at exactly what we are looking for for our cyber force, and to answer the question, “Can we bring in somebody who would not normally suit us, because we are desperate for their cyber-skills, rather than their ability to run up a hill?”

Stephen Lovegrove: To a certain extent, this is really new territory. Although colleagues in the agencies have been used to recruiting people who have these kind of skills, the people who have those kinds of skills typically are not doing the types of things that we may be asking people on the cyber front to do. Without going into details, there is obviously a difference between having a military effect and collecting information. This is a complex and new area, and I can’t pretend that we have the answers. I can only give you the assurance that we are aware that we are going to have to think about this really hard.



Lieutenant General Richard Nugee: This is challenging the very basic culture of the armed forces, and we need to be really careful. We are a very successful armed force; we fight extremely well. The Army have had a mantra of Army first, skills second, because regardless of your job, you might have to fight in a forward operating base. Regardless of whether you are the chef or whatever, you have to fight. We are challenging that by saying, "The most important thing about this individual is their cyber-skills. That is more important than their ability to fire a weapon." That is a fundamental change to our culture. If we go down that route, we have to be really careful, because the last thing we want to lose is our ability to fight.

Q97 **Chair:** Can I just say that we were all intrigued to read the "Modernising Defence Programme" document? Lots of nice pictures—they fill the pages. I hope we might get a bit more flesh on the bone at some point. We will probably be looking at it. Under "The threat" on page 12 of that document, it says, "Meanwhile, technology, especially digital technology, is developing at a breath-taking pace." Mr Lovegrove, do you think the Ministry of Defence and the commands are moving at a breath-taking pace to resolve our issues around the cyber-threat?

Stephen Lovegrove: "Breath-taking" is probably for somebody else to judge.

Chair: So this was written by Ministers.

Stephen Lovegrove: We have plans, which I am not in a position to talk about here, to radically improve and enhance our capabilities in this area. Perhaps the most interesting document that the Ministry of Defence has put out in the last year or so is "Global Strategic Trends". If you haven't got a copy of that, I am very happy to send one to each member of the Committee. It is a really, really profound and very interesting analysis of, broadly, the fourth industrial revolution and what it means for the security—very broadly defined—of the nation. It is that kind of diagnostic, rather than possibly some of the statements that you have just read out, that is defining the way in which we are trying to develop the future force. We have talked a lot about my predecessor. This will outlast me and my successor. This is going to be a completely iterative process for a very long time to come.

Chair: That brings us neatly back to Ms Trevelyan's probing of how the current recruitment is going.

Q98 **Anne-Marie Trevelyan:** It is referred to as the Army recruitment project, but clearly the other two services are using it too. How would they say it was going for them, General?

Lieutenant General Richard Nugee: DRS is going well, and the other two services are now bought into DRS, but at the moment the RPP contract is a Capita-only contract. Our intent, in the future, under a thing called FRP—the future recruiting programme, for want of a better phrase—is going to be tri-service, and we will take advantage of the fact. I actually would prefer it to be quad-service, so that there is the opportunity to join



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the civil service as well, so that those who are passionate about defending this country but who cannot get into the armed forces have another avenue, which is the civil service.

The intent is that FRP will be quad-service. To that end, we are doing some branding of the civil service in defence, so that they also have a brand, but the intent is to make it tri-service. Importantly for the individual who decides which service they want to join, they will meet somebody of that service. We are not going purple, if you like. We are not becoming blancmange—you want to join the Army but you talk to somebody in the Navy, and then if you want to join the Army you talk to somebody in the Army. All the processes behind it and all the mechanisms will be tri-service, or quad-service if we can.

Q99 Anne-Marie Trevelyan: I am feeling momentarily optimistic, Mr Lovegrove. This is all going to be in place and General Urch is going to have all the soldiers he needs by 2022, as are the Navy and the RAF in their respective forces. What if, by any chance, it does not go as well as we hope, and we are not meeting those KPIs? Talk me through your plan of action—or are you just going to roll it to 2022 and then see what happens?

Stephen Lovegrove: No, we are not going to do that. That is a question that is clearly related to the previous comment I made about global strategic trends.

First of all, we want to have the full complement of personnel in the services, so the first line is clearly going to be working with the services and Capita to make sure that everybody is working as hard as they possibly can to do that. That should not be in doubt.

It is clearly the case, though, that the nature of work is changing very rapidly indeed. There may be opportunities that are thrown up as a result of that. I can see in our support network, for instance, that if we can make the investments, the opportunity to really improve the digitisation of our logistics chains and so on may well allow us to move military personnel and civilian personnel around in a way that is not visible sitting here today.

First things first: we want to get as many people into the forces as we have committed to. If it is looking difficult or we are falling down, we will always try to take advantage of new technologies and where the threats are in order to be as flexible as possible. It may well take investment, though, and that is difficult in the current environment.

Lieutenant General Richard Nugee: The future recruiting programme, FRP, has already started. It goes through initial gate in the spring of this year, and therefore is at a reasonably senior level already. There is a programme board, and there is an SRO, and it is tri-service. We have commercial expertise on that board—as much as we think we need at the moment, but it will be reviewed after initial gate.



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It will come out with some ideas. The fault that we had before is that we stopped what we were doing and we started with Capita. As Mr Lewis has said, we ran no pilots or anything; we just assumed Capita would pick it up. If FRP has a good idea, it is going to trial it—initially in the other two services, but if we can, we will trial it in all three services—prior to losing the Capita contract in 2022. We will therefore have a much better idea of what is and is not going to work before we have to change to a new contract.

Q100 Douglas Chapman: Overall, we need to look at the NAO Report in full, because it does not paint a happy picture. While we might have great aspirations about what the future might hold, that is against a background of heavily over-subscribed equipment—there is a £15 billion potential overspend on that—difficulty in recruiting and challenges around retentions, as well as the poor-quality military housing that the Committee has looked at in the past. That paints a picture of the difficulties in capability that the Army might face. If the Army is not in crisis now, is there anything in the lack of effective recruitment that will put it into crisis in the future?

Lieutenant General Richard Nugee: I don't want this to sound flippant, but when I was at staff college as a student in the mid-1990s, one of the officers there—a junior major—stood up and said to the Chief of the General Staff, "When are you going to accept that the wheels have fallen off the wagon?" In other words, even in 1995, when we were much larger and were not committed in the way that we were the whole way through the beginning of this century, we thought that things were in crisis, and they were not.

I think, therefore, in answer to your question, that it is very difficult to judge what would actually make us in crisis to the extent that we would fall over. We are meeting our operational commitments and will continue to do so whatever it takes, because that is what we are doing for the nation. If that means that some of our people have to work harder in certain circumstances and in certain skills, that is what we will do to make sure that we meet our operational commitments. The damage that that does in the long term is that our retention of those skills is not as good, so it is absolutely in our interest to make sure that we have the right number of people so that we can properly look after our people and keep the tempo that we need. But if we have to, we will use our people to the level that we need to use them to keep the operational commitments going. That is what we do and will do.

Q101 Anne-Marie Trevelyan: To clarify, we are of the view that to date, this contract has not been a financial success, but if we end up having a system that gives us the boys and girls that we need, that will be something. How much money has been saved in the staff budget by not having all those recruits—7,000 gaps here and 12,000 gaps there? What has been the financial benefit of being under-resourced in human capital for the last few years, to all three services?



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Stephen Lovegrove: I am afraid that I do not have that figure. We will have to get back to you on that.

Anne-Marie Trevelyan: We would be grateful if you did, because it seems to me that that is the only upside. If you are saving money somewhere and you are going to invest for the future, the financial model stacks up in some form because you have saved quite a lot of money by not having all those soldiers.

Q102 **Chair:** Presumably, you are not paying overtime in the way that other organisations are.

Lieutenant General Richard Nugee: They do not get paid overtime, full stop.

Q103 **Anne-Marie Trevelyan:** So it is a general saving. You are running it out and there is a saving. It is good to hear about the FRP, General, but Mr Lewis, when we get to 2022, as part of your covenant commitment and your commitment to writing off what has not been a good contract for you, will you hand over all the IT and give it—with generosity—to the armed forces to use moving forward?

Jonathan Lewis: The Army has an in-perpetuity right to the DRS application, not just to use itself but to provide to third parties who might provide services.

Q104 **Anne-Marie Trevelyan:** Mr Lovegrove, is that going to be a profitable opportunity? Are you going to be running the systems of the French too?

Stephen Lovegrove: This touches on a question that Sir Geoffrey asked me last time I was in front of the Committee. It is a bit early to say that, but I can tell you that we are looking much more closely at some of the ways in which we might be able to commercially exploit our IP through different types of structure. That is ongoing work at the moment.

Q105 **Chair:** Would that be in partnership with Capita—Mr Lewis has talked a lot about partnership—or is that MoD solo?

Stephen Lovegrove: I am afraid that I cannot answer the question in specifics.

Lieutenant General Richard Nugee: We do not know, come 2022, because we have not yet worked out exactly how we are going to do it. That is the whole purpose of FRP.

Jonathan Lewis: The product is owned by Capita. The software product and intellectual property are owned by Capita.

Q106 **Chair:** But you are going to allow the MoD or the tri-forces to use it.

Jonathan Lewis: Yes, for a maintenance and support fee that would be the same whether they were operating themselves or it was a different third party that was providing any software system to them.

Q107 **Anne-Marie Trevelyan:** Is that because the military does not have any operating systems that they sit on, so they have to use your operating



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systems?

Jonathan Lewis: That is patently the case, because DRS was not an initial part of the scope of the contract, of course. We had to develop it because there wasn't a system—

Q108 **Chair:** So in terms of commercial exploitation, where would the profit be? Mr Lovegrove said "We're looking at these opportunities", but it sounds like they are opportunities for you, if you are owning it.

Jonathan Lewis: Absolutely they are, and that is one of the reasons why we have invested very substantially in the application, almost 3x that which we have billed to the Ministry of Defence.

Q109 **Sir Geoffrey Clifton-Brown:** But, Mr Lewis, you are not the only part of this contract—this partnership, as you now like to call it—who has invested a lot of money. The Army has invested a lot of money and a lot of their expertise to enable you to get to the software that you have, so how can it possibly be justified that you would charge a service fee to use a contract that the Army has helped you to develop?

Jonathan Lewis: The Army has paid a major contribution towards what DRS ultimately cost—somewhere in the order of £35 million. What was agreed in the negotiations, when we discovered that the Army recruitment system was incapable of delivering what we needed it to deliver, was that clearly, more investment would be required; Capita would make that investment, and as a result Capita would own the intellectual property. As part of those negotiations, it is my understanding that we also agreed that the Army would have access to that platform in perpetuity for a conventional industry standard fee for maintenance, ensuring it is current on different IT platforms, and so on. That is no different from how it would be if the Army were using any other software platform from any other provider.

Q110 **Gareth Snell:** But surely the difference is that the Army has essentially co-created and co-funded the development of that software, so it is very different. It is not as if the Army has gone to a shop and bought a product off a shelf. The Army has helped you to build that product, which you are going to sell back to it.

Jonathan Lewis: I have spent 10 years in software technology, and the model we have just described is not at all unusual in the software industry.

Q111 **Gareth Snell:** Was there any pushback, Mr Lovegrove, from the Ministry of Defence or from generals in the Army about intellectual property rights post contract for the software that you were paying to develop?

Lieutenant General Richard Nugee: You would expect us, under FRP, to look at every opportunity and eventuality, and that includes the opportunity to go for something different from the current DRS scheme. We are absolutely looking at that, not least to see whether, if Capita do charge us post 2022 for maintenance, it is good value for money for us. Absolutely, we are looking at alternatives to DRS.



Q112 **Gareth Snell:** I am not asking about alternatives. It is more about—I appreciate this was before your time—when the contract was being developed and it became apparent that a new software platform would be required in order to meet the terms of the contract, and you decided to put £35 million towards that, at any point was there any discussion in the Army or the Ministry of Defence about whether or not you should be looking to secure IP rights to that software going forward, out of contract?

Lieutenant General Richard Nugee: I don't know the answer to that.

Q113 **Gareth Snell:** Is there any way of finding that out?

Stephen Lovegrove: We can have a look. I am afraid I don't know the answer to that.

Q114 **Chair:** In the renegotiation, it seems that the MoD and the Army gave away quite a lot. It was a good deal for Capita on one level: Capita has made a loss now, but has the potential for big wins in the future.

Stephen Lovegrove: I am genuinely not sure as to the—

Q115 **Chair:** Can we just be clear: will it be able to be used as a platform for all three forces, and when will you know whether it will work for all three forces?

Jonathan Lewis: It is being used today for all three forces. Let us remember that as a contractor, we were paying service charges through the contract because we did not have an IT platform that met the requirements of the contract.

Chair: You were being fined, or the penalties were not making much difference because of the problems with the contract. We have gone through all of that. I want to move on to some wider issues, and I am going to ask Sir Geoffrey Clifton-Brown to come in.

Q116 **Sir Geoffrey Clifton-Brown:** Can I just stick with skills for a minute? It seems to me that half of this contract is skills, and with huge respect, General Nugee, I would just challenge you on the answer that you gave me a little earlier on about the need for technicians who are capable of fighting. I have never been an armed forces person or a soldier, but when I did the armed forces parliamentary scheme 18 years ago, the engineers who were maintaining the Tornados were not military men. If they needed guarding, the military guarded them. Surely some technical person in the Army dealing with very sophisticated comms out in some theatre of war might not necessarily need to meet the medical standards that a normal Army "fighter" would meet? I am not sure that your answer reflected that.

Lieutenant General Richard Nugee: I was talking about the current; I was not talking about the future. The current is that all our soldiers—about the only exceptions are those we call professionally qualified officers, such as doctors, chaplains or lawyers, most of whom are officers—go through



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basic training, where they learn about fitness, standards and how to fire a rifle, regardless of their technical skills.

When they are qualified as basic trained, they go to what we call trade training—it used to be called phase 1 and phase 2, but it is now basic training and trade training; it is the same thing—where they learn technical skills if they do not have any. That is the model that we have today.

There are all sorts of ways that we are trying to improve that model. As I say, basic training is basically about fitness, values and standards and the ability to fire a rifle. We are looking at what it means to take a risk with that, so that we just begin trade training ab initio. We are looking at that but we have not yet come to a conclusion.

That will allow us to offer much greater lateral entry. The Secretary of State has asked us to look at how we can increase our lateral entry for precisely that reason.

Chair: We looked at that a lot when we looked at—

Lieutenant General Richard Nugee: We have talked about that before. However, be in no doubt that that is a different model from what we have today. I was describing the culture of today.

Q117 **Sir Geoffrey Clifton-Brown:** General Nugee, I think you were here when we did our report in July on ensuring that there are sufficient skilled military personnel. You will recall that there were seven categories in the armed forces—engineering, intelligence, pilots, logistics, communication, medical and other. Those are desperately needed skills; they are pinch points to the effectiveness of our armed forces.

You were going to write to the Committee by December—I am not sure whether you have or not; I have not checked—on what you are doing to try to boost the skills in those particular categories. What progress have you made in the last six months in that respect?

Lieutenant General Richard Nugee: We have what I call a skills campaign plan, which is designed to do two things. It looks at demand—whether we need all those skilled people—and supply, which is the numbers that we need. We have gone out of our way with the Armed Forces Pay Review Body to look at, for example, remuneration of engineers, and last year, within the timescale that you are talking about, we brought in some different remuneration for pilots to try to encourage them to stay in. We looked at the qualifications we need for our medics in order to be able to bring them in from the NHS—a form of lateral entry—so that we can increase the number of medics that we have.

Those are just some examples of what we have tried to do. Have we solved the problem? Absolutely not. I think I recall telling you, and your being slightly shocked, that it would take years to solve some of these problems. We are still along that route, but we are trying as hard as we can to look at both ends of the spectrum.



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Stephen Lovegrove: Some specific pinch points are making good progress. I particularly highlight the Navy and the good progress it is making on nuclear engineering and weapons engineers. It has a very targeted programme of getting the right people in and keeping them and making sure that they do not leave. There are areas of light.

Lieutenant General Tyrone Urch: Can I give you one other example, just to bring it to light exactly? We have target-loading groups for recruiting. There are 14 specific target-loading groups that we are going after. One good example, which is a mass number rather than a niche speciality, is line infantry and guards, which has been a perennial problem for us. In June last year, our infantry training centre was loaded to 25%. The intake that has just formed up in January is 85% fully loaded, as a result of its being a target-loading group. Going from 25% loaded to 85% loaded in six months is a good example of our getting after some of those difficult areas.

Q118 **Chair:** Are you measuring the retention rates of those?

Lieutenant General Tyrone Urch: They have not got into the field Army yet. That is different.

Q119 **Chair:** Exactly. It is good that you are getting the numbers up, but only if you can keep them in.

Lieutenant General Tyrone Urch: Absolutely. Voluntary outflow and involuntary outflow are—

Q120 **Chair:** You will be analysing that.

Lieutenant General Tyrone Urch: We are doing that on a constant basis, reporting as a metric as part of our management of information pack brief to the Army board every month.

Lieutenant General Richard Nugee: Similarly with the Navy. Take chefs, for example. They are now loading 100% of their chef requirement because they have skewed their loading towards chefs to solve that pinch-point problem.

Chair: The chefs can always get a job anywhere else.

Q121 **Sir Geoffrey Clifton-Brown:** Mr Forzani, you may have thought you had it easy. Paragraph 3.11 of the report says you will save £267 million by 2022 on this contract. Will you?

Andrew Forzani: I think we already committed earlier to what the savings will be.

Stephen Lovegrove: We are not going to say £267 million; we anticipate saving £180 million. It is still value for money, but it is not as much value for money as we would have liked, and it clearly has not produced the number of soldiers that we would have liked.

Q122 **Sir Geoffrey Clifton-Brown:** How much saving have you already banked? Or is this contract over budget, in which case where will you



make the savings?

Lieutenant General Tyrone Urch: The programme is not over budget; now we have a solid platform to work on, with the four pillars going forward, we have a high degree of confidence that the programme will come in to budget, having used all the contingency. We anticipate £180 million will be the rough benefit in financial terms. From an Army perspective, at least, even if the financial benefits were considerably less than £180 million, which is about 30% less than we had anticipated, the saving of 900 soldiers is a significant benefit.

Sir Geoffrey Clifton-Brown: We don't know the numbers, and that is the problem. You said you have saved 900 but you still have 800 involved. That is fuzzy at the moment.

Chair: And they were not all full time; let's be clear about that.

Q123 **Sir Geoffrey Clifton-Brown:** You are going to write to us about how many soldiers you actually have involved. You still think you will make that £180 million saving, when you have spent all the £199 million contingency and, according to paragraph 2.19, you have had increased expenditure on computers and other things of £95 million. Do you still think you will make a £180 million saving?

Lieutenant General Tyrone Urch: The original business case was £267 million, I recall. We have sorted the people, the IT, the platform and the programme. There will be always be unknowns—I cannot be 100% confident. I have a much stronger degree of confidence, having accounted for the money we have put into the programme to sort out the IT and the money we have put in for more military and civilian manpower—we got that wrong and we have adjusted that by, for example, putting in another 30 soldiers who were not there originally.

Q124 **Chair:** We are talking about the report; that £267 million assumed that military personnel would be taken out of the process. I think you have probably already acknowledged this, but to be clear: do you acknowledge that that was an over-optimistic assumption?

Lieutenant General Tyrone Urch: Yes. We have put 30 back in. Not being a mathematician, I think that is about 3%. Of course, that comes out of the benefit—paying those soldiers who we have had to put back in because we cut the numbers too drastically. That is a lesson we have learned.

Q125 **Sir Geoffrey Clifton-Brown:** Mr Lovegrove, we are in 2019, and the contract ends in 2022. When will a decision be made about what will follow this contract?

Stephen Lovegrove: We anticipate thinking about that at the end of this year or the beginning of next year, to be honest. These are long-term processes and that is when we will get into that. We really want to bed down what we are doing for the next few months.

Q126 **Sir Geoffrey Clifton-Brown:** Are you confident that your system of



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withdrawing some of the money from Capita will incentivise them in the last three years of the contract?

Jonathan Lewis: Can I answer that? We have already demonstrated that we are committed to delivering on this contract. It is the most important contract in our portfolio. General Sir Nick Carter was the first client I went to meet.

Chair: Yes, you have said that several times. I am aware of time—we can repeat things, but we know that.

Jonathan Lewis: We are committed.

Stephen Lovegrove: I am reasonably confident, yes.

Q127 **Sir Geoffrey Clifton-Brown:** And on the targets that were mentioned at the beginning, which are critical—the really exacting targets that you told Mr Snell about—are you absolutely confident about those?

Stephen Lovegrove: I am not the best to opine on that. I, too, have noticed that Mr Lewis has said that he hopes to over-achieve against the targets that Lieutenant General Urch mentioned, and I hope that he does, because that is the most important thing.

Lieutenant General Tyrone Urch: To be clear, these are forecasts rather than a target. Just to be clear on the language, we are given a target about what the demand is for the British Army. That is one thing and it is the target. At the same time, I believe that we will get somewhere close to 80% of that by the end of the next recruiting year. I call that a forecast, based on the algorithm and on how well we are recruiting at the moment—which is exceptional, compared to last year.

Q128 **Gareth Snell:** General Nugee, Mr Lovegrove and General Urch, is there anything Capita could do between now and 2022 that would actually make you seriously consider terminating this contract? What I have heard so far appears to suggest that there are so many things for which you were ultimately responsible in commissioning the contract with Capita that they could not make any improvements at all and you would not take any action. What would they have to do for you to terminate this contract?

Stephen Lovegrove: There are many things that they could do that would mean that we would want to terminate.

Q129 **Gareth Snell:** Give me one or two examples.

Stephen Lovegrove: If they were to withdraw all their best staff, or if they were to fail to make investments—

Q130 **Gareth Snell:** What if they failed to meet those targets or forecasts that General Urch has talked about?

Stephen Lovegrove: Depending on how much they were failing by, the forecasting would be susceptible to deductions in the contract.



Q131 **Gareth Snell:** But not termination of the contract?

Stephen Lovegrove: There are things that would lead to termination. The Secretary of State has been crystal clear on that, and I should say that the Secretary of State has paid very close attention to this. Not every breach or failure would lead to a termination. Clearly that would not be sensible.

Q132 **Gareth Snell:** My concern, Mr Lovegrove, is that, yes, not every breach would lead to a termination; my fear is that no breach would lead to a termination, and that by 2022 Capita could have met its requirement on those recruitment targets in every year of the contract, but the most that the MoD and the Army will have done is to have withdrawn some of the payments.

Stephen Lovegrove: I can assure you, Mr Snell, that there is not a situation in which Capita could do anything they like and not have the contract terminated.

Jonathan Lewis: We talk as if complete responsibility for achieving these targets is purely laid at the door of Capita—

Q133 **Chair:** The first half hour or more of questioning was directed with good reason in a particular area, but can we move on to the wider capital contracts? I think that the MoD has 81 current contracts with Capita, and there are 49 contracts that have end dates in the past but for which you are still receiving payments. The total value of those arrangements is about £1.28 billion, so you are one of the 27 strategic suppliers—it might be 28 now, as it goes up and down a bit. At the MoD, Mr Lovegrove, how dependent are you on Capita and their various subsidiaries for delivering your core services? What would happen if there was a big problem with Capita?

Stephen Lovegrove: Of the contracts that we have at the moment, they are immensely weighted into two contracts—

Q134 **Chair:** So which are the two that you are most concerned with?

Stephen Lovegrove: The contract that we have been spending most of the day talking about—the RPP contract—and the strategic business partner contract at the DIO. Those two contracts made up over 90% of all the payments made last year to Capita. We have discussed how dependent or otherwise we are on one of those contracts; doubtless we will talk about the DIO one. The others are much, much smaller. Clearly, it would be open to us to replace them if they were not performing appropriately, if that is what we wanted to do. They are not, however, of the strategic scale of those two contracts or anything like.

Q135 **Chair:** So if Capita were to fail—I will come to Mr Lewis in a minute, before he gets the heebie-jeebies—could the MoD cope? What if Capita were to be a Carillion?

Stephen Lovegrove: I will now hand over to Mr Forzani, who may well have thought that he has got away lightly so far.



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Andrew Forzani: There are the two key contracts, and there is quite a long tail, including some very small training contracts. We have clear business continuity plans for those two big partnerships. I am sure we will come on to the strategic business partner in a second. You know that that is actually ramping down and is due to expire in June this year. That is very much at the back end of that contract. The main risk to us will be on the contract that we have just been talking about, and how we could continue.

Q136 **Chair:** But from what we have heard about that contract, as Mr Snell was highlighting particularly and effectively, lots could still happen. We have seen lots happen from the MoD side and the Capita side. It is almost as if you are so wedded together—or zipped up, as I think Mr Lewis put it—that there is no ability to undo that zip.

Stephen Lovegrove: The smaller contracts will all have contingency arrangements associated with them—step-in rights, alternative providers—whatever they happen to be—

Q137 **Chair:** So basically they have what we might now call living wills.

Stephen Lovegrove: We are not concerned about those smaller contracts.

Q138 **Chair:** Are they living wills? Where are you at, corporately, on living wills?

Stephen Lovegrove: I do not think they have living wills associated with them in the way it is currently being used.

Q139 **Chair:** Mr Lewis has talked about being at the vanguard of the living will and willing to do it. Where is the MoD on the living will side? It requires both sides to get that right. As we saw with Carillion, it took a lot of quite fast work by Departments and agencies to get it right.

Andrew Forzani: At the moment, we would be relying on our contractual rights of step-in, and using things such as the software that we talked about earlier. What is in Project Santiago around living wills is an important step from industry and we would really welcome that. At the moment, we are relying on our contractual rights and the strength of how good they are each time we put them in place. I think living wills would be a step on.

Q140 **Chair:** When do you think you will have that in place for some of these major contracts—not just Capita ones, but generally?

Andrew Forzani: For living wills, I think there are only three suppliers at the moment who are piloting it. We are trying to put the pressure on with the Cabinet Office to have them put in place early this year. It still has to be tested and it is very much focused on the services sector at the moment. We will be looking to see how that works. We would like to then implement them across the defence sector more widely.

Q141 **Chair:** Mr Lewis, what percentage of your total business comes from the MoD and other Government contractors?



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Jonathan Lewis: I do not know that figure off-hand. We can certainly provide it. It is less than 10%, and probably closer to 5% of our total revenue.

Stephen Lovegrove: I have a figure for that. My understanding is that Capita relies on the public sector for 46% of its revenue and on the MoD for just over 4%.

Q142 **Chair:** I was talking about business, but you are talking about the number of contracts, and Mr Lovegrove is talking about the income. Can we clarify?

Jonathan Lewis: So 47% of our revenue today is derived from the public sector versus the private. My guesstimate of the revenue from the MoD was not far off.

Q143 **Gareth Snell:** Does the MoD apply a weighting to its procurement process to give a greater propensity for existing contractors to win new contracts?

Stephen Lovegrove: No.

Q144 **Chair:** What would a living will for the particular contract that we have been discussing look like? Could you tell us the key points that you would have to have in place?

Jonathan Lewis: In essence, it would be an effective vehicle by which the scope of work could be grandfathered either back into the MoD or to a different third-party provider. It would map out the legal entities concerned, the resources, how you would TUPE them, and so on.

Q145 **Chair:** In a trade-off for a bad contract, you have quite a lot of rights over the software and the IP, which is potentially a big prize, if it goes well for you. That is a big thing to give up. If you were in a Carillion situation—in difficulty—that would surely be one of the last things that you would want to give up. What happens then?

Jonathan Lewis: For the record, we are not in a Carillion situation. We have an extraordinarily strong balance sheet. We addressed that last year and we shared it with the Committee in the summer, so we are not about to fail.

Chair: But you understand that we are asking about the worst case. We have seen it once so we are very concerned.

Jonathan Lewis: We are not about to fail. However, it is good practice, especially in the public sector, to put living wills in place. That is why we have signed up to it.

Q146 **Chair:** But it is not in place yet, so what would you need to do? If there was a problem with this for any reason—I am not going to speculate on problems because that is not fair to you and your share price, which I am not that worried about, but I am aware it makes a difference—what would you actually have to do? You would pass it over, but surely it would be very hard for you. Intellectual property is a very valuable asset



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for a company; that is the point I am driving at. Intellectual property is a valuable asset, so, really truly, it is not easy for you to give that over, is it?

Jonathan Lewis: Under a living will, we would be committed to ensuring that we continued to deliver the recruitment to the British Army. A perpetual licence of the defence recruitment software, together with TUPE-ed resources who execute the work today, would fill that requirement.

Q147 **Chair:** So you just TUPE people over and it will be okay.

Jonathan Lewis: It is much more than that. It is a very complex process, which is why, a priori, we have agreed that we should put these processes in place.

Q148 **Chair:** Going back to what I asked you earlier, when you weren't able to be precise, can you be more precise about how long it would take to draw up a living will just for the contract that we have been discussing? As you say, it is complex, there are lots of legal elements to it.

Jonathan Lewis: It could be done expeditiously, but we are doing it as part of a Cabinet Office programme, so we don't want to deviate from that programme, which today is essentially determining the timeframe in which we—

Q149 **Chair:** Roughly, in that programme, how long?

Jonathan Lewis: I don't run the programme; the Cabinet Office runs the programme.

Q150 **Chair:** You say you could do it expeditiously, but obviously there is a cost to doing it. If it was something that you as a business wanted to do quickly, how long do you think it would take a business the size of Capita to do that, just for this one?

Jonathan Lewis: Weeks to low single-digit months.

Q151 **Chair:** Okay, that is very helpful to know. In future, when you look at contracts—you are doing this as a pilot with Capita—were you planning anyway to think about having living wills in place as part of your pitch, so that you could say, "If anything ever goes wrong with us as a company, rest assured, things won't go belly up"?

Jonathan Lewis: Yes, and it is one of a number of actions that we have taken: we will ensure that, with more than 33% of our supplier base being SMEs, we pay 95% of SME invoices within 30 days; we are putting employees on the board; and we are doing a whole bunch of things to ensure that we are deemed to have the right credentials to be awarded work by central Government.

Q152 **Chair:** So you think that now it is important to have those things in place in order to win future contracts from Government.

Jonathan Lewis: Yes, I do. We are talking about the social value Act essentially, and an expansion of that. David Lidington spoke about this in



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November, and we have been very public in our statements in support of the aspirations of the social value Act.

Q153 **Chair:** I will bring in Gareth Snell in a moment, but I will finish this one and move on to the DIO and leadership of that, which you obviously had a big responsibility for. Mr Lovegrove, what progress has been made in transferring the leadership of the DIO to individuals directly employed by your Department?

Stephen Lovegrove: Good progress. To be fair to Capita, they have made real efforts in transferring key personnel over.

Chair: The personnel themselves have been transferred?

Stephen Lovegrove: Yes. As you know, one of the problems that we had with the contract was that the continuity of the CEO, who was provided by Capita, was not anything that we wanted—I think there were three in just over two years. Graham Dalton was provided by Capita, and he has just been announced as moving across fully to the civil service, so on some of the questions that were, understandably, being asked at the beginning of the session about when it is appropriate to have capability within the civil service or to outsource, we are absolutely working on that. As I said, I will give credit to Capita: they have been very constructive in that, because this was a big issue when we decided to terminate the contract—or curtail the contract.

Q154 **Chair:** From your perspective, Mr Lewis, what do you feel about that progress? I mean, you lost good people as a result.

Jonathan Lewis: I concur wholeheartedly with the permanent secretary. If we look back on this contract, it is another example of misaligned objectives. We entered into this contract on the understanding that there would be capital available to invest to save in the defence real estate.

Q155 **Chair:** You talked about misaligned objectives, and that is two contracts now. How do you rate the MoD? You can be candid with us. In fact, I like to think that Mr Lovegrove, as the permanent secretary, would applaud candour, because he is certainly candid. How would you rate the MoD's negotiating skills, compared with other commercial partners that you deal with?

Jonathan Lewis: A bit like Capita, there is a completely new leadership team in place.

Q156 **Chair:** It is always cleansed. But generally, you have a lot of Government contracts in defence, and 47% of your revenue comes from the public sector. Do you think that overall the public sector is a good client, or do you find that you can get a good deal out of it?

Jonathan Lewis: It is a very demanding client; it is a far more demanding client than the private sector. One of the key reasons why we continue to focus on central Government as a client is the reforms that are being discussed within the Cabinet Office under the banner of Project Santiago. If those reforms were not being embraced as broadly as they



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are in central Government, we might have a different perspective on how attractive central Government is as a market segment for us.

The calibre of dialogue that is taking place today in a procurement or commercial framework is much higher. There is a recognition—it predates me, but it is clear from the conversations that I have had with Government Departments, internally within Cabinet and among peers across the industry—that there was a race to the bottom, as we discussed in the summer, and there was not a partnering relationship in place. I accept the joke about zippering up, but, in all seriousness, unless we have that closeness of working relationship between the parties we will have more of the problematic outsourced contracts that we have seen historically.

Q157 Sir Geoffrey Clifton-Brown: You know I have a constituency interest in this, Mr Lovegrove. Serco have currently issued a judicial review into the way that you let the contract. My constituents, who are owned by Capita, are desperate to get on with this contract. It costs them a great deal of money every single month that they are not operating it. Is there anything more that you as the contractor can do to resolve the issue?

Stephen Lovegrove: We are equally keen to see the situation resolved as quickly as possible. You will understand, Sir Geoffrey, that there is a very sharp limit to how much I can talk about, given that it is sub judice. We are moving as fast as the legal process will allow. Mr Forzani is probably better placed to talk about the specifics of the timetable.

Andrew Forzani: There is the first case conference call with both teams in March. If we go to the full process, we expect a trial at the end of the calendar year.

Q158 Sir Geoffrey Clifton-Brown: So the process in March is to determine if there is a case. Is that correct?

Andrew Forzani: Broadly, yes. That is where the merits of the case get pooled together and a trial date would be set after that conference.

Q159 Sir Geoffrey Clifton-Brown: I am now going to say some fairly strong things. Given that Serco are a large Government contractor, and given that I think they are using this purely as a spoiler because of sour grapes because they did not get the contract, is there not something more the Government collectively can do to persuade Serco that their actions are wholly unreasonable?

Stephen Lovegrove: I do not think—

Chair: Mr Lewis is feeling the love.

Jonathan Lewis: That doesn't usually occur in this environment.

Chair: Enjoy it while it lasts.

Stephen Lovegrove: We are very keen on taking an in-the-round perspective when we talk to key suppliers. I don't think that that would



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extend to asking them to adjust their views of the legal merits of cases that they bring against us. I do not think that would be ethical of us.

Sir Geoffrey Clifton-Brown: The comments stand and I have no further questions.

Q160 **Gareth Snell:** Can I just confirm, Mr Lovegrove, that Cyprus is included in the fire and rescue contract?

Stephen Lovegrove: Yes, I think it is.

Q161 **Gareth Snell:** In its entirety.

Stephen Lovegrove: I will pass this to Mr Forzani. He is closer to this than I am.

Andrew Forzani: It is certainly one of the sites in the contract, yes.

Q162 **Gareth Snell:** I have been trying to get details, including tabling written parliamentary questions and oral questions to the Minister. Could you write to confirm the specifics of the contract that will apply to Cyprus and whether there has been any deviation from what would apply to UK mainland sites?

Andrew Forzani: Happy to.

Q163 **Anne-Marie Trevelyan:** On the question of Annington Homes and the future accommodation model, which is one of my favourite subjects, General Nugee, as you know, I know there has been some slippage in the pilot roll-out. What does that mean in terms of moving forward that whole area of progress for service family accommodation and the future accommodation model?

Lieutenant General Richard Nugee: With the future accommodation model, we hope that the pilots will start this year. We slipped it to get better evidence and understand exactly, or as much as we possibly could, what the implications of some of the policy decisions that we are taking were.

I have every confidence that the Secretary of State will sign off, assuming he agrees, in February for the future accommodation model. We then need Treasury approval, once he has signed it off. Once that happens and I am pretty confident—they are giving us all the right indications now—that we will be able to start the pilots about three or four months after that. So I am very confident that we will start with pilots this year and I would very much hope that that is done by the mid of the year.

Q164 **Anne-Marie Trevelyan:** The size and location of the pilots?

Lieutenant General Richard Nugee: We are going for three locations: one Army, one Navy, one Air Force.

Q165 **Anne-Marie Trevelyan:** What sort of numbers of people are going to be involved?



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Lieutenant General Richard Nugee: I will give the example of the Army: I think 8,000 families will have the ability to access, if they so wish. It is a choice.

Q166 **Anne-Marie Trevelyan:** Right. So it's a sort of open approach— "Come and try it out, and be a guinea pig"?

Lieutenant General Richard Nugee: Yes, that is the whole purpose of the pilot, because one of the things that we want to find out is what the behaviours will be of people. Given an opportunity, will they go for it? There are two very conflicting views? One is that nobody will want to go for it, because they want to stay as part of the internal unit service families accommodation. The other is that actually they can't wait to get away from that, for all sorts of reasons, and they want to go on to the private market. We need to test that because what they say and what they do may not be the same thing.

Q167 **Anne-Marie Trevelyan:** Indeed. Mr Lovegrove, in terms of Annington Homes—that relationship, the number of voids and where you are going—how is that progressing? And how are you merging the impact of the FAM looking forwards with the Annington Homes conversation?

Stephen Lovegrove: I will ask General Nugee to pick up on the latter point. We are working very closely with Annington at the moment and we are making good progress to an agreed protocol for an accelerated site review process. You will remember that the default was going to be starting in 2021 for many years—we don't have to go through every single one. And we are hoping—it won't be fast, but we are hoping—that our accelerated programme may well be finished by the time that that one was due to start.

I hope that we will be able to give you better information about that, but I can assure you that we are making good progress with Annington. And we are also making pretty good progress with them on resetting some of the terms around the existing contract to enable better management of the estate, particularly around voids and dilapidations, which I know the Committee is concerned about. We are making progress. When we can, I will give you a fuller answer.

Q168 **Anne-Marie Trevelyan:** When is that likely to be?

Stephen Lovegrove: I am hoping within a matter of a small number of weeks.

Anne-Marie Trevelyan: That's very exciting.

Q169 **Chair:** What are Annington getting in return for changes to the odd terms and conditions?

Stephen Lovegrove: They are not very keen on the idea of a very extended site review either; I think it constrains their commercial trade space, as it were. In terms of waivers on dilapidations and voids and handbacks and so on, there are just trades around that. We can do things that assist them in marketing.



Q170 **Chair:** Can you give us some examples?

Stephen Lovegrove: I would rather not go into too many details at the moment, if that's all right Chair, because we are still in the negotiation, but we will give details as soon as we can. However, it is good progress and I should say that since the hearing on it, there has been a noticeable change.

Q171 **Anne-Marie Trevelyan:** That is very good to hear.

In relation to, for instance, Graham Dalton coming into the MoD permanently and actually bringing people in and indeed perhaps looking to build that cohort through your FRP, to think of the family as a whole, I understand that 2019 is going to be a year of empowerment, Mr Lovegrove. This is your new line. We had the year of the Navy in 2017. I like empowerment; that's very good. How is that going to work in practice for those families? How are they going to feel that this is real rather than same old, same old? Are your middle ranking officers and, indeed, civil servants going to feel that they can be heard up the chain, where change is needed?

Stephen Lovegrove: The year of empowerment obviously means a lot of different things to a lot of different people in the MoD. It is vast and it contains multitudes. Some parts of the empowerment will be trying to make sure that the main building—the head office—works a lot better, gives better decisions, gives more clear direction and ability of people to make changes on the ground. I know that the Chief of the Defence Staff is extremely keen on that. In terms of specific families, I will pass over to General Nugee.

Lieutenant General Richard Nugee: For the family pilot, for those three sites, the families on those sites will have the ability to choose, so empowerment is a matter of choice. Some of what empowerment is is a matter of choice. They will be able to choose whether they stay in SFA, whether they move into the private sector, or whether they get support for living in their own home. We have extended Forces Help to Buy until the end of this year and the purpose of extending Forces Help to Buy is to see if we can come up with some sort of commercial contract so that we can permanently extend Forces Help to Buy. We are in negotiation with a number of organisations in order to be able to see if we can do that, which I think is very good news, but the idea is that we will offer choice to people and in that way empower them to live the way they want to live. Part of that is changing the rules on eligibility so that we are offering the opportunity to live with your partner rather than just somebody you are married to, which is the current rule.

Anne-Marie Trevelyan: Twenty-first century empowerment. Very good.

Lieutenant General Richard Nugee: That is our intent.

Q172 **Sir Geoffrey Clifton-Brown:** General Nugee, you know that in the hearing we had on this whole matter, I was very keen that those who were in MoD houses and those who are not in the pilots and those who do



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not want to buy their own house—60% of the population are in the rented sector, generally, so there is inevitably going to be a very high percentage of tenants in the MoD—had assurance regarding improvement to the standard of maintenance? It is not in your interest to have houses that are not well maintained, because you are paying a much higher fee in dilapidation to Annington Homes. What has changed?

Lieutenant General Richard Nugee: I think that as a result of the defence estates optimisation programme, as we reduce the size of the estate, that will increase the liquidity of the estate budget and that will allow for greater maintenance in the future; but that is, I would say, jam tomorrow. What has changed? We are committed to providing enough money in maintenance to be able to meet the key performance indicators that we have with Amey at the moment. We are looking at and we are at least understanding what it would take financially, which we do not have in our budget at the moment, to raise those key performance indicators and therefore significantly raise the standards. What we have said, and we will continue to say, is that we will not put people in any property that is not of a decent homes standard, which is a national standard. I cannot remember the exact figure, but it is in the 80 per cents, and maybe more, that are decent home plus already. We are attempting to bring our entire stock up to decent home plus through maintenance. We have not yet done it because there is a lot of stock.

Q173 **Sir Geoffrey Clifton-Brown:** This is not a huge comfort to somebody living in a house at the moment—we have provided you with examples—that is not up to a decent standard. Some of them are living in appalling conditions. What is the timetable for bringing your existing tenants up to a decent homes standard?

Lieutenant General Richard Nugee: There are no tenants who are not in accommodation that meets the stipulation of what is a decent homes standard. We do not tenant anybody in accommodation that is not decent homes standard. If accommodation falls below the standard that we would wish and there is no alternative, we offer an opportunity for somebody to move, and we have done that a number of times, so that we can bring that property up to the standards that we would wish it to be; but I assure you that there is nobody in non-decent homes standard accommodation.

Q174 **Anne-Marie Trevelyan:** Can you just confirm whether there is still a mould register for the Ministry properties, and indeed an asbestos register, or have they now been removed?

Lieutenant General Richard Nugee: I don't know. We could get back to you.

Q175 **Anne-Marie Trevelyan:** I would be grateful if you could get back to me. On the question of a decent home standard, for me, a home with a bathroom so mouldy that children develop asthma is not a decent home. If anyone in one of my housing association homes had that, I would be beating down the door of my council. There are a number of homes that have those sorts of problems, and 18 months ago I was told that there was no longer a mould register because there were no longer any mould



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problems, and that is not true. I would be very grateful if you would look into that and come back to me.

Lieutenant General Richard Nugee: I don't know the answer to that.

Q176 **Chair:** For those of us who see cases day in, day out at our surgeries, decent homes solves many problems but it does not make a perfect home by quite some way.

Lieutenant General Richard Nugee: If I may, Chair, that is exactly why we want to get every property to decent homes plus. That is absolutely our aspiration, but that comes at a great cost.

Q177 **Chair:** I am heartened by the "plus" in decent homes plus. Does that "plus" have a formal definition?

Lieutenant General Richard Nugee: Yes, it does—well, we have made a definition of it, but whether it is a national definition I don't know.

Q178 **Chair:** But you know what you mean by decent homes plus?

Lieutenant General Richard Nugee: We know exactly what we mean by decent homes plus.

Q179 **Chair:** It is not just a general, casual phrase but an actual standard?

Lieutenant General Richard Nugee: Correct.

Q180 **Sir Geoffrey Clifton-Brown:** It seemed to me, when we were having a detailed examination of this matter in the Committee, that it is one of those sorts of contract where there was potentially one win-win for both parties, and that was the redevelopment prospects of swaps of empty houses and land. How much progress are you making in that respect?

Lieutenant General Richard Nugee: I will not name it, but there is one example where there are dilapidated properties at the moment, and we are working extremely closely to try to redevelop the site with Annington Homes, to be able to produce decent-quality, brand-new properties as part of a package with Annington Homes. We are looking for those opportunities. We are looking to sell off voids if that is in our interest and in Annington Homes's interest. We will pay dilapidations on some of those voids, and that goes back to what the permanent secretary was saying: we are coming to a deal with Annington Homes, they want those properties and we want to offload them, so what incentives can we have from them and vice versa to make that a sensible proposition? We are absolutely working on what you are asking.

Q181 **Sir Geoffrey Clifton-Brown:** One site sounds very unambitious, if I may say so.

Lieutenant General Richard Nugee: I have just given you an example of one site. I don't know the totality.

Q182 **Sir Geoffrey Clifton-Brown:** How are you getting on with the rent review negotiations?



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Lieutenant General Richard Nugee: I think they are going very well at the moment, as the permanent secretary said. They are going much faster than we anticipated, and we believe that we now have a really good relationship, particularly between Graham Dalton and Annington Homes, that is delivering a much better outcome than perhaps we thought six to nine months ago. We are working to a faster outcome than we expected for the rent reviews.

Stephen Lovegrove: Clearly, if we cannot get to an appropriate answer, then we do not get to an appropriate answer and we go back to where we were.

Q183 **Chair:** When will you know what rents you will be paying? When do you think that bit of the negotiation will be complete?

Stephen Lovegrove: The accelerated site review process should theoretically take batches and then do a dipstick type of approach. It will be months, if not years, but it will not be anything like the time of the full site review process. As I say, my aspiration would be to get it finished at roughly the time that the default site review process would be starting.

Q184 **Chair:** So basically you will have all the answers at the same time and it is not as if you will know in the meantime.

Stephen Lovegrove: Exactly. That is our aspiration, but we are still negotiating.

Q185 **Chair:** So the date you gave us is for when everything will be complete, and it is not as if you will have stages along the way where you will know—

Stephen Lovegrove: No, there will be batches of properties that will have gone through a review.

Q186 **Chair:** And they will be going through the new rent model?

Stephen Lovegrove: They will be going through a rifle-shot site review, effectively.

Chair: We will obviously come back to that.

Gareth Snell: Just a quick question: throughout this session, whether it be the recruitment contract, Annington Homes or some of the other ones, rightly, you have all talked about lessons learned from the way those contracts were commissioned and implemented. How are you embedding that learning into the MoD, so that when you, Generals, have retired and Mr Lovegrove has transformed into Sir Stephen, the generation that comes after you does not repeat the same errors?

Stephen Lovegrove: I would start with the Cabinet Office process. I think the Cabinet Office has hugely increased its capability in terms of strategic supplier management, which is effectively what we are talking about here. There are many more people of a higher quality doing that now, and the training and standards associated with it are light years



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away even from where they were when I started in the civil service 15 years ago.

For our part in the Ministry of Defence, we are rolling out the functional model, which I have talked about before in front of the Committee. We are putting people through much more rigorous training, and the accreditation is much more consistent, standardised and high-quality. We have brought in a whole cadre of senior leaders in the area, who we very much hope will stay as long as they possibly can and pass those lessons down.

We are taking the embedding of this very seriously, but we are following a cross-Government lead. The sector clearly has its problems, and it is not in the interest either of the Government or of members of the sector for us to find ourselves in a position where contracting behaviours and cultures lead to the kind of problems that we have been talking about today.

Q187 Gareth Snell: Is anything happening in the Army that is changing how you look at contract commissioning for the future, so that the sorts of problems that you rightly addressed in your opening section are not repeated when renewing the contracts or in future contracts?

Lieutenant General Tyrone Urch: If I had my time again, the first thing I would do would be to ask more questions and have more of what we call war-gaming and red-teaming on what could possibly could wrong. The second thing is trials and pilots, because one thing that we did not do—

Q188 Gareth Snell: I appreciate that that is what you would do, but what is actually going to happen in the future?

Lieutenant General Tyrone Urch: The functional model that I have talked about—the standardisation, the training, the accreditation—is not just for civilians in head office; it is shot through the Department.

Q189 Gareth Snell: And into the services?

Lieutenant General Tyrone Urch: Yes, and into the services. Actually, we are doing a review at the moment of whether the way in which we construct the senior responsible owners of these projects is good enough. That will certainly incorporate both uniformed and non-uniformed personnel in all the services. This is a defence-wide exercise, not just head office minority support.

Q190 Sir Geoffrey Clifton-Brown: Mr Lovegrove, we have spent a lot of the afternoon discussing this Capita project. Clearly there were a number of problems when it was originally let. Would you change the procedure—indeed, are you changing the procedure—on contracts like this to have far more pre-contract discussions with all potential bidders, so that some of the problems might be eliminated before the contract is even let?

Stephen Lovegrove: Yes. I will hand over to Mr Forzani.

Sir Geoffrey Clifton-Brown: Afterwards, I want Mr Lewis to give the private sector view on this, please.

Andrew Forzani: I think those lessons learned are at the heart of Project Santiago. It is about getting it right earlier. What have done now is make changes to our investment approval and our governance to get a much earlier strategic outline business case that asks all those very questions much earlier in the process. Is this viable? Have we thought this through? What will be the response of the market? We are getting some senior, experienced people right at the front. We have actually changed our approvals and scrutiny process in the last six months to look at these projects in a different way.

Sir Geoffrey Clifton-Brown: And for the private sector, Mr Lewis?

Jonathan Lewis: As I have said repeatedly, I am very encouraged by Project Santiago. One of the tests when I meet a permanent secretary, senior directors or the head of commercial in Government Departments is whether or not they are embracing Project Santiago. For every Department that I have asked that question of to date over the last three months the answer has been yes, which is further encouragement.

Q191 **Chair:** I think they have to. The Cabinet Office is telling them to.

Jonathan Lewis: But that has not been the case in the past.

Chair: Well, yes, I agree.

Jonathan Lewis: The proof is in the eating. Let's tender some work and see how the principles of Project Santiago are being applied.

Chair: Thank you very much indeed for your time. The transcript will be up on the website uncorrected in the next couple of days, and our Report will be out in February or maybe March, depending on how things move.