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Capita's contracts with the Ministry of Defence

Eightieth Report of Session 2017–19

*Report, together with formal minutes
relating to the report*

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The Committee of Public Accounts

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The current staff of the Committee are Richard Cooke (Clerk), Laura-Jane Tiley, Samir Amar Setti (Second Clerks), Hannah Wentworth (Chair Liaison), Ameet Chudasama (Senior Committee Assistant), Baris Tufekci (Committee Assistant), Hajera Begum (Committee Support Assistant), and Tim Bowden (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5776; the Committee's email address is pubaccom@parliament.uk.

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Summary

In 2012, the British Army naively launched into a 10-year partnership with Capita to recruit new soldiers, thinking it could leave Capita to manage recruitment. However, Capita entered into the contract without fully understanding the complexity of what it was taking on. Both parties entered into an over-specified contract and then introduced changes to centralise the approach to recruitment without trialling them. The Army and Capita also failed to simplify the recruitment approach and have only recently introduced the essential online recruitment system, over four years late. The Army has managed the Programme passively but Capita's performance has been abysmal since it started, and it has failed to meet the Army's recruitment targets every single year of the contract – an unacceptable level of service delivery. Over the last year, the Army and Capita have introduced changes to the recruitment approach, but it is too early to detect any impact on enlistments and the Army still does not expect to fully meet its recruitment targets until 2022. We are not convinced that the Army will manage Capita strongly enough to improve performance or avoid Capita charging excessively for the continued use of the online recruitment system after 2022. We are also highly sceptical that the Army will achieve its forecast savings as a result of employing Capita. If the contract does not deliver the anticipated savings, this waste of taxpayers money undermines confidence in MoD planning. Some of the problems establishing this contract are similar to those on The MoD's other major contract with Capita on the Defence Infrastructure Organisation, which it will end five years early due to poor performance. We are disappointed to see the MoD replicate the contract management errors that our Committee sees all too often across government.

Introduction

In 2012, the Army sought to reform its approach to recruitment. It established the Recruiting Partnering Project and committed £1.3 billion over ten years. The Project's aim is to recruit the quantity and quality of soldiers that the Army requires each year (including officers and other ranks, regulars and reserves) and save money. As part of this, it entered into a ten year, £495 million contract with Capita Business Services Ltd (Capita) to bring in its expertise in recruitment and marketing. However, Capita has missed the Army's annual targets for recruiting regulars and reserves every year since 2013 – with a shortfall that ranged from 21% to 45% of the Army's recruitment requirement.. The size of the shortfall has increased over the last three years and in 2017–18 Capita recruited 7,000 fewer regular and reserve soldiers and officers than was required. It expects to be 40% below target in 2018–19. The Army originally forecast the Programme would achieve savings of £267 million by 2022 but has now reduced this to £180 million.

Conclusions and recommendations

1. **The Recruiting Partnering Project contract was overly complex and poorly implemented, and both the Army and Capita must share responsibility for Capita's terrible performance in recruiting new soldiers since 2012.** The Army and Capita both under-estimated the complexity of the Army's recruitment policies and processes at the outset. Capita admits that, at the time it bid for the contract it had been "chasing revenue", being simply interested in booking additional contracts, and accepts that it should have pushed back far more on the Army's requirements. The Army was concentrating on the war in Afghanistan, which was itself helping to recruit new soldiers, and naïvely assumed that it could just hand responsibility to Capita. Capita lacked the required specialist expertise in armed forces recruitment. And so, the Army's 'hands-off' approach contributed to the contract's failure. The contract was also overly prescriptive and restrictive, containing 10,000 requirements, making it overly complex and negatively impacting on the innovation of the recruitment process. The changes to the approach that the Army and Capita did introduce – such as the failed attempt to centralise recruitment – were not trialled before introduction and demonstrated a fundamental misunderstanding of the importance of face-to-face contact with applicants. As a result of these problems, Capita has missed the Army's recruitment targets every year since the contract began. **Recommendation:** *As they consider the options for recruitment beyond 2022, the Department and Army should demonstrate how they are applying the lessons learned, and how they are considering radical new ideas for recruitment across the frontline Services. We expect to see significant improvements when we examine this issue again. The MoD should write to the Committee by September 2019 to share their updated recruitment plans.*

2. **It has taken Capita and the Army far too long to address under-performance.** The Army has been passive in its management of its partnership with Capita, and has been slow to respond to Capita's under-performance in recruiting new soldiers. This is despite the problems being known for many years – indeed this Committee itself reported in September 2014 on recruitment shortfalls and how the expected savings were not being realised. The Army renegotiated the contract in 2017 – some 4 years after Capita began - but failed to use its leverage to secure additional benefits from Capita, in particular, missing the opportunity to renegotiate the contract to protect its rights to the online recruitment system after the contract ends. The Army has also failed to simplify the recruitment process. This has changed little since the start of the Capita contract and over half of applications still took 321 days or more in 2018, the same as 2014. It has also taken the Army and Capita too long to analyse why applicants voluntarily drop out of the process, despite losing 47% of applicants this way. They have only recently begun to think more radically about the recruitment process, including the sequencing of stages and the need for medical information. The Committee is disappointed to see the MoD's poor contracts form part of the trend across government that we see too often.

Recommendation: *The Department should report by the end of September 2019 on the specific actions it is taking to simplify and streamline the recruitment process, explaining how it is piloting these changes and demonstrating how they are helping to reduce recruitment times.*

3. **Capita and the Army have introduced improvements to their approach, but it remains to be seen whether they will be successful.** The Army and Capita have introduced a number of changes over the last year, including the new online recruitment system, an enhanced package of face-to-face support for applicants and new arrangements for managing the contract. The new senior management teams are committed to improving performance and the Committee welcomes this commitment.. Capita tells us that the new marketing campaign –introduced in January 2019 - has led to an initial increase in applications. Nevertheless, to date, Capita has not yet translated this heightened interest into an improved performance in recruiting new soldiers, and forecasts that it will achieve only 60% of the Army's target in 2018–19. Capita has performed poorly against the contract KPIs since 2015 but the Army and the Department did not convince us that it was ready to take clear and decisive action if Capita continues to under-perform. The Army stated it had a high degree of confidence that Capita will get close to achieving 80% of its recruitment requirement by March 2020 and 100% by the end of the contract in March 2022.

Recommendation: *The Army should report to us at the end of each financial year with a breakdown of performance against key metrics, including enlistments, conversion rates, recruitment times and a breakdown of voluntary drop-outs. It should also provide an update on Capita's performance against the contract KPIs and the actions it has taken in response to any under-performance.*

4. **The Army has not yet altered its mindset to ensure recruitment policies keep pace with rapid changes in society, better understanding of certain medical conditions and the pressing need to attract cyber specialists.** The changes in the external threat environment mean that the capabilities the Armed Forces require are evolving rapidly. As we have previously reported, the Army has long-standing skill shortages which recruitment is failing to address. There is a risk that the Army is artificially limiting the pool of people it recruits from. Certain medical conditions can prevent some people from joining, even though they may possess the skills that the Army needs. Its closure of half of its local recruitment offices creates a risk that the Armed Forces are under-represented in some areas and people in some areas now have to travel for longer during the recruitment process. The Department has begun to consider revisions to entry policies and is seeking to develop its cyber capability. It is essential that it does so. But we are not convinced about the pace and extent of change, and whether the Army is doing enough to target and attract the full breadth of the UK population.

Recommendation: *The Army should write to us within 6 months to explain how - while ensuring that recruitment standards are maintained - it is planning to revise its entry criteria to recruit the skills that are needed in the future; to ensure that new joiners reflect the breadth of society; and to take account of developments in the understanding of certain medical conditions.*

5. **We are highly sceptical that the Army will secure the intended benefits – including financial savings – before the contract ends in 2022.** The Army initially forecast that it would save £267 million over 10 years as a result of its partnership with Capita but has now reduced this to £180 million. It claims to have saved £25 million in the first six years which means it expects to save £155 million in the remaining four years – this appears overly optimistic and unrealistic.. Achieving the savings is dependent on the Army delivering the remainder of the contract within budget and experiencing no further cost increases. As at September 2018, the cost to the Army of the Capita contract had already increased from £495 million to £677 million, so the Army has already used up its contingency of £199 million. The Army's forecast savings are also based on redeploying soldiers from recruitment duties to frontline operations. Any savings within the contract period to 2022 may also be offset if the Army has to pay Capita for use of the online system after the contract ends, despite co-funding its development. There is also limited evidence of skills transfer from Capita which, with the reduction in the number of Army personnel, may limit the Army's options post 2022.
- Recommendation:** *As part of the annual update to the Committee recommended above, the Army should provide a full breakdown of the savings from the Recruiting Partnering Programme and explain its progress in establishing whether it is able to adapt and use the online recruitment system after 2022, and at what cost.*
6. **Capita and the Department also failed to work together effectively on the other major Capita contract to transform the Department's management of its estate, which has now been terminated five years early.** The Department has 81 current contracts with Capita, as well as 49 more where final payments are still to be made. Together they are worth £1.28 billion. Of these, however, two contracts - the one for army recruitment and the one for managing the defence estate for the Defence Infrastructure Organisation - account for around 90% of payments. Most of the remainder are small contracts, where the Department says it is not so dependent on Capita as it could use alternative suppliers. Capita relies on the public sector as a whole for around 46% of its revenue, but just 4% from the Department. Poor performance by Capita on the defence estate contract has led the Department to end it five years early and take responsibility back in-house in 2019. A number of aspects of the inadequate set-up and management of this contract were similar to that for army recruitment including the delay to the necessary IT system and misaligned objectives. Both Capita and the Department state that their relationship is now stronger, with new people in post, and Capita is committed to the 'living will' concept, in case of contractor failure.
- Recommendation:** *As it reforms its commercial practises and capabilities, the Department should embed the lessons from its relationship with Capita, and, before the summer, write to us setting out how it is improving the commercial performance of all its constituents parts, and how it will measure this success.*
7. **We remain very concerned at the slow progress in improving military housing and at the lack of transparency around the major developments currently under way.** The Department's Future Accommodation Model pilots to trial alternative ways of offering suitable accommodation for service personnel, due to start in 2018, have slipped and the Department now hopes that they will start during 2019 in three

locations. This is further prolonging the uncertainty for personnel. The Department's negotiations with Annington Property Limited on an accelerated site review process have continued, and it is hopeful that agreeing this approach will avoid the need to review every site, which was due to start in 2021. It also claimed to be making good progress resetting the agreement with Annington to allow better management of the estate, particularly around voids, although the Department's November 2018 update set out a plan to reduce empty properties to around 12% by 2022, rather than the 10% target that the Committee had recommended. Because negotiations are still on-going, the Department was reluctant to go into much detail. The Department assured us that it would not put service personnel and their families in homes which are not of 'decent homes standard', and was attempting to bring all homes to a higher standard.

Recommendation: *The Department should provide us with a further update on progress with its work improving military housing by 31 July 2019, given the slippage on the Future Accommodation Model and the close connection between this work and the ongoing Annington Homes reviews, which remain the subject of negotiation.*

1 The set up and implementation of the Recruiting Partnering Project

8. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Defence (the Department) on the problems that the British Army (the Army) has encountered in establishing and implementing its partnership with Capita to recruit soldiers, and the steps that it is taking to achieve the intended benefits.¹

9. In 2012, the Army sought to reform its approach to recruitment by entering into a partnering agreement with Capita Business Services Ltd (Capita). It established the Recruiting Partnering Project and committed £1.36 billion over ten years. The Programme's aim was to recruit the quantity and quality of soldiers that the Army requires each year (including regular and reserve officers and soldiers), and to save money. In March 2012, following a competitive process, the Army awarded a £495 million contract to Capita. It believed that contracting-out to a commercial provider would bring new expertise in recruitment and marketing.²

10. However, Capita has missed the Army's annual targets for recruiting new soldiers and officers every year since it began in 2013. The shortfall each year has ranged from 21% to 45% of the Army's requirement. In 2017–18, Capita recruited 6,948 fewer regular and reserve soldiers and officers than the Army needed. Capita missed the Army's annual target for recruiting regular soldiers by an average of 30% over the first five years of the contract, compared with a 4% shortfall in the two years before Capita started. Recruitment shortfalls result in the Army placing greater strain on existing personnel to maintain operations and limit its ability to develop the capabilities it needs in the future.³

The set-up of the Project

11. The Army stated that at the time it entered into the partnership with Capita in 2012, it was pre-occupied with the war in Afghanistan, which had helped with recruitment. It told us that it had been naïve to think it could just contract out recruitment to an organisation that was not military.⁴ Capita also accepted that it made mistakes entering into the contract. It had been more interested in “chasing revenue” and winning new contracts rather than its partnership with the Army.⁵ As a result, Capita under-estimated the complexity of the Armed Forces' requirements. It did not, for example, recognise the level of customisation that was required to develop the new online recruitment system and, as a result, could not use an ‘off-the shelf’ commercial solution.⁶ The delays in developing a bespoke application meant Capita could not introduce the digital recruitment approach as originally envisaged at the outset.⁷

12. The Army and Capita entered into an overly complicated contract, with the Army insisting on 10,000 areas of contract compliance (i.e. contract specifications). The level

1 C&AG's Report, Investigation into the British Army Recruiting Partnering Project, Session 2017–19, HC 1781, 14 December 2018

2 C&AG's Report, paras 2, 1.5

3 Qq 10,13; C&AG's Report, para 5

4 Qq 3,16

5 Qq 39, 75

6 C&AG's Report, para 10

7 Q 86

of complexity reflected the Army's career structure, which had 240 career employment groups, and the Army assumed that Capita would be able to work within this structure.⁸ This constrained Capita's ability to innovate but the company did not push back on the level of contract specification.⁹ The Army's management of the Programme has also limited its ability to refine the recruitment process. Between 2013 and 2018, it responded slowly to Capita's proposals to streamline or change the recruitment process.¹⁰ The Army told us that it had now reduced some of the complexity of the contract to allow Capita to innovate.¹¹

13. At the outset, Capita introduced a centralised, call-centre approach to recruiting, using Upavon as the national recruiting centre. The Army acknowledged that, as a result, it lost its ability to support candidates through the application process.¹² Capita did not trial this approach before its introduction and the Army accepted that it was a mistake not to recognise the importance of face-to-face contact with applicants. They have now ended this approach and put the onus back on local recruitment centres and local engagement with schools and colleges. It is also using military 'role-model' soldiers to promote a career in the Army and an enhanced package of support for applicants to help them through the process.¹³

Problems with implementation

14. Capita has missed the Army's targets for recruiting new soldiers each year since 2013.¹⁴ The Department suggested that the fundamental deficiencies in Capita's performance did not become fully apparent for about three years.¹⁵ It told us that it was initially focussed on training in preparation for the war in Afghanistan and then on meeting the Prime Minister's target to increase the size of its reserve force to 30,000. The Department could not, though, explain how senior management were monitoring performance during this period. Given the Parliamentary interest in recruitment figures, we are extremely surprised at the Army's failure to recognise the scale of Capita's performance problems and at the passive approach to managing the contract before 2016.¹⁶ This is particularly the case since this Committee published a report in September 2014 on Army 2020 which covered these issues. In that report, the Committee commented that the recruitment contract with Capita was not established on the basis of a clear understanding of the scale of the recruitment challenge, that shortfalls in Army recruitment were increasing the risk of capability gaps emerging in some parts of the Army's structure and that a huge step up in performance was required if the Army was to hit its ambitious targets.¹⁷

15. In April 2017, the Army agreed to revise its contract with Capita, lowering performance targets and resetting the contract's penalties. It believed that continuing to apply the maximum service credit deductions would not give Capita an incentive to invest

8 Q 3

9 Qq 35, 37–38

10 C&AG's Report, para 18

11 Q 10

12 Q 3

13 Qq 16, 17, 99

14 C&AG's Report, para 5

15 Q 27

16 Qq 60, 63, 66

17 Committee of Public Accounts, Army 2020, 11th report of Session 2014–15, HC 104, 5 September 2014

in improving its performance.¹⁸ We are concerned, however, that the Army gave away a lot at this point and that this was a good deal for Capita, with the potential for big wins in the future. In particular, the Army did not amend the contract to secure the intellectual property for the online recruitment system that it had co-developed and co-funded. The Army could not explain why – despite Capita's poor performance - there had been no pushback on these issues and it did not use its leverage to secure additional benefits.¹⁹ The National Audit Office report shows that Capita has not even achieved the reduced targets for the number of new recruits since the contract was reset.²⁰

16. The Army and Capita have failed to simplify the recruitment process. In 2017–18, half of applicants took 321 days to complete the recruitment process – from application to starting basic training – and one third took over 400 days. The Army and Capita have not, however, made any substantive changes to the recruitment process and recruitment times have not reduced since 2014–15. While some applicants complete the process quicker and others like to pace themselves through the process, there are also applicants that are not fit enough to meet the Army's requirements and need to spend time preparing to get through the physical assessments.²¹ Applicants have also had long waits for medical records to be obtained from their general practitioner. However, the Army and Capita have also introduced some changes - such as the use of primary health care records - without trialling them and subsequently found that these changes slowed recruitment times.²²

17 The length of time to complete the recruitment process affects the conversion of applicants into new recruits. Capita estimated that just 14% of applicants actually join the Army and 47% voluntarily dropped out..²³

18. The Department accepted that the time it takes to recruit new soldiers is too high and that it needs to streamline the recruitment process across the three frontline services. It has begun to trial new initiatives, including taking more risks at the beginning of the process and running different stages in parallel. It is also reviewing its policy and approach to obtaining medical records, including working with NHS Digital to obtain documentation more quickly, and assessing the value of the online medical questionnaire. Overall, the Army aims to reduce recruitment times to three months – from application to the offer of a post.²⁴

The Army and Capita's response

19. The Army and Capita have introduced a series of new initiatives to address the problems that they have encountered and to address Capita's under-performance. They have introduced new arrangements for managing recruitment, bringing together the eight areas of the Army with a responsibility for aspects of recruitment, with meetings chaired by senior personnel from both bodies.²⁵ The online system is now operational and provides

18 C&AG's Report, paras 3.6 – 3.7

19 Qq 111–112, 114

20 C&AG's Report, para 3.8

21 Qq 52, 53; C&AG's Report, para 14

22 C&AG's Report, paras 2.18 and 2.20

23 Qq 53, 54

24 Qq 67, 68

25 Q 45

better data to understand the progress of applications through the recruitment process.²⁶ In January 2019, the Army and Capita also launched a new marketing campaign and told us that applications were three times higher than in January 2018.²⁷

20. Capita has performed poorly against the key performance indicators in the contract, meeting a target just four times out of 228 since August 2015. It accepted that it was not pleased with this performance but was confident that the recent changes will lead to improvements.²⁸ As a result of the contract penalty clauses, the Army has deducted £26 million from its payments to Capita (6% of contract payments since 2012) which, in most months, was the maximum amount possible. The Army was not, though, able to provide us with a convincing answer on how it would penalise Capita for under-performance in the future, and the conditions under which it would consider terminating the contract. The Secretary of State has previously said that the Department would remove the contract if it “lost confidence in Capita”.²⁹ But the Department could not provide us with clarity on in what circumstances – other than the withdrawal of key staff - or what level of under-performance would lead to this and how long it would take to disentangle Capita from the process.³⁰

21. However, despite increased applications, Capita has not yet met the Army's targets for recruiting new soldiers.³¹ The Army forecasts that Capita will recruit 60% of the soldiers that it needs in 2018–19. The Army also told us that it had a high degree of confidence that it would achieve 80% of its requirement by March 2020 and that Capita would be recruiting the full demand by end of contract. Capita also stated its confidence in meeting or exceeding these targets.³²

26 Q 56

27 Q 35

28 Qq 32, 37, 79

29 Qq 24–26, 35

30 Qq 128–132

31 C&AG's Report, para 20

32 Qq 5, 42, 44

2 Achieving future benefits

Recruiting the skills that are needed in the future

22. The evolving threats to national security mean that nature of the Department's work is changing rapidly. It is seeking to develop its future force to ensure that it has the skills and capabilities that are needed, particularly in areas such as digital technology and cyber security.³³ Our September 2018 report on Skill Shortages in the Armed Forces highlighted the long-standing problem of skills shortages and the challenge of recruiting the specialist skilled personnel needed to meet future ambitions.³⁴ The Department told us that it has a skills plan and considers options to address shortages, including the remuneration package for trades with shortages and lateral entry into these trades. The Army also considers its shape, size and skill requirements and, on this basis, sets targets for Capita to recruit into specific groups. However, Capita did not achieve the Army's requirement in more than five of 17 target groups in any quarter in 2017–18.³⁵

23. We were concerned that the Department's policies restricted its ability to recruit the specialist skills that it will increasingly need in the future. The Department told us that it was not changing its entry standards but has widening its entry criteria. For example, it is revising its medical conditions, considering areas such as mental health standards and musculoskeletal requirements, to attract a wider range of people.³⁶ The Department is also growing its cyber capabilities, essential in a changing world. It is engaging with other government agencies to consider the entry requirements of people with cyber skills, and the extent to which they need to meet military standards and criteria. The Department accepted that these developments will require a fundamental change to the culture of the Armed Forces which had to be managed carefully. We were not convinced, however, that the Department was thinking radically enough or re-assessing its policies at the necessary pace.³⁷

24. The Army has closed 68 local recruitment centres, more than half of the local offices it had in 2013. It claimed that the closures were largely in rural areas and based on an analysis of the number of applicants coming from those offices.³⁸ However, the Committee found that some of the closures were in areas with historically high recruiting rates or had the effect of requiring applicants to travel long distances.³⁹ The National Audit Office report shows that closures have increased journey times to local offices.⁴⁰ Capita claimed that the location of offices is not fixed and also, using its analysis of the origin of applicants, it could use its mobile facilities to increase its representation in areas without a recruitment office. We were concerned, however, that the Army was limiting the pool of potential recruits, and consider it should not rely solely on data on applications to indicate potential

33 Qq 97, 99

34 Q 117; Committee of Public Accounts, Skill shortages in the Armed Forces, Session 2017–19, HC 1027, 12 September 2018

35 Q117, C&AG's Report, para 2.23

36 Q 95

37 Qq 91, 96, 97

38 Q 81, C&AG's Report, Figure 5

39 Qq 80, 83

40 C&AG's Report, para 2.17

interest, nor should it underestimate the value of face-to-face recruitment drives.. The closure of offices has also reduced its ability to travel to schools and colleges to generate interest in careers in the Armed Forces.⁴¹

Achieving the intended savings

25. In 2012, the Department forecast that it would save £267 million over 10 years from its partnership with Capita, mainly by withdrawing personnel from the recruitment process and redploying them to frontline operations.⁴² In January 2019, the Department forecast that it would now save £180 million, a reduction of 33%. At our evidence session the Department could not, though, provide us with clarity on the number of soldiers that were still involved in recruitment, or would be needed in the future.⁴³ The Department has since written and stated that there are currently 417 military recruiting posts, which includes 374 Regular personnel and 43 Full Time Reserves.⁴⁴ The National Audit Office found that the Army had employed additional military personnel to improve awareness of recruitment campaigns.⁴⁵

26. The Army has achieved savings of just £25 million in the first six years of the contract, which means it expects to save £155 million in the remaining four years.⁴⁶ Achieving this is dependent on delivering the remainder of the Programme within the budget of £1.36 billion. In October 2018, the Army was within budget, but the increased cost of the Capita contract – which had risen from £495 million to £677 million – was a significant factor in the Army using all of the Programme contingency of £199 million. This, and the lack of certainty over the need to use Army personnel to boost recruitment in the future, meant that the Army was not confident of achieving these savings.⁴⁷

27. The Army and Capita jointly developed the online recruitment system. The Army incurred costs of £113 million and Capita invested £60 million to bespoke the system to meet the services' recruitment processes and criteria,⁴⁸ Capita told us that the Army will have an in-perpetuity right to use the system for an industry-standard maintenance fee.⁴⁹ We were concerned, however, at the risk of commercial exploitation and the potential future cost to the Army, given that it had co-created and co-funded the system. The Army is exploring its future options, including its ability to adapt the system in the future, the potential costs and possible alternatives.⁵⁰

28. The Army aimed to transform recruitment by bringing in Capita's expertise in recruiting and marketing.⁵¹ It removed 900 of its military and civilian personnel as Capita introduced its own professional recruiters. Given this, we were not convinced that the Army was doing enough to build up its capability so that it would have the option of reverting to an in-house approach in 2022, rather than be reliant on Capita.⁵² The Army

41 Qq 80, 83–86

42 Qq 121, 124

43 Qq 122, 123

44 Letter from Stephen Lovegrove to Chair of the Public Accounts Committee, 25 January 2019

45 C&AG's Report, para 3.12

46 C&AG's Report, para 3.12

47 Qq 122, 123

48 Q 35, C&AG's Report, para 9

49 Qq 103, 109

50 Qq 107, 110, 111, C&AG's Report, para 12

51 Q 10, C&AG's Report, para 1,5

52 Qq 18, 35

has recently introduced a new Programme to explore its options for recruiting across the three frontline services and the Department's civilian workforce. It plans to trial new ideas to build its understanding of the options before 2022, and inform its thinking on whether to continue with its partnership with Capita.⁵³ The Department plans to consider its options in early 2020.⁵⁴

The Department's wider relationship with Capita

29. The Department has 81 current contracts with Capita, as well as 49 more where the final payments have not yet been made or which have yet to be closed. Together these arrangements are worth £1.28 billion.⁵⁵ The Department told us that of the contracts it had with Capita, two - for army recruitment and for managing the defence estate for the Defence Infrastructure Organisation - account for around 90% of payments made last year to the company. In addition, in June 2018, Capita won a further important contract for Defence Fire and Rescue Services but this is currently subject to a judicial review.⁵⁶ Most of the remainder are small contracts, where the Department told us that it is not dependent on Capita as it could use alternative suppliers. Capita secures around 46% of its revenue from the public sector as a whole, but just 4% from the Department.⁵⁷

30. As we noted last year, poor performance by Capita on the defence estate contract has led the Department to end it five years early and take responsibility for managing the estate back in-house in 2019.⁵⁸ A number of aspects of the inadequate set-up and management of that contract were similar to that for army recruitment, including the delay to the necessary IT system and misaligned objectives.⁵⁹ Both Capita and the Department state that their relationship is now stronger, with new people in post on both sides. Capita was supportive of the reforms that are being pushed forward by the Cabinet Office and stated that it is committed to the 'living will' concept, in case of contractor failure.⁶⁰ The company told us that the calibre of dialogue with government is much higher than it was, and that closer working relationships was important in avoiding problematic outsourcing contracts. The Department also considered that Capita had been constructive in their approach to transferring key personnel over.⁶¹

53 Qq 98, 99, 105

54 Q 125

55 Q 133

56 Qq 157–162

57 Qq 134, 141–142

58 Committee of Public Accounts, Ministry of Defence's contract with Annington Property Limited, Fifty-third Report of Session 2017–19, HC 974, 13 July 2018

59 Q 154

60 Qq 144–150, 156

61 Qq 153, 155–156

3 Management of defence housing

31. This Committee has a long running interest in military housing which is essential for the well-being of many in the armed forces. We remain very concerned at the slow progress in improving military housing and at the lack of transparency around the major developments currently under way. We have reported on military housing and Annington Property Limited twice in the last two years and continue to keep the matter under review.

Arrangement with Annington Property Limited

32. The Ministry of Defence has committed to providing service personnel with subsidised accommodation. In July 2018, this Committee reported on the arrangement with Annington Property Limited, under which the married quarters estate was sold off and rented back for up to 200 years. We expressed concern at the 'disastrous' deal and noted that the situation could get worse because the rent levels are to be reviewed from 2021. Depending on the negotiations, the Department's costs could increase significantly at a time when the defence budget is already stretched.⁶²

33. In November 2018, the Department provided an update on the Annington arrangement.⁶³ It told us that it was working with Annington Property Limited on an accelerated site review process. It is hopeful that agreeing this approach will avoid the need to review every site, which was due to start in 2021, and that the accelerated programme would be completed before that date.⁶⁴ The Department said that Annington was also not keen on an extended site review. It also stated it was making good progress resetting some of the terms of the agreement with Annington to allow better management of the estate, particularly around voids and dilapidations, and would provide further information when it was available. In its November 2018 update, the Department also set out a plan to reduce empty properties to around 12% by 2022, rather than the 10% target that the Committee had recommended. Because negotiations are still on-going, the Department was reluctant to go into much detail but stated that since the Committee's evidence session in January 2018 it felt that there had been a noticeable change in relations.⁶⁵

Future Accommodation Model and housing quality

34. Another initiative on which we have commented before is the Future Accommodation Model, which is designed to give service personnel greater choice and flexibility over their accommodation and allow access to the wider housing market. The Department's Future Accommodation Model pilots to trial alternative ways of offering suitable accommodation for service personnel were due to start in 2018, but have slipped, and the Department now hopes that once it has ministerial and Treasury approval they will start later in 2019. The Department has previously told us that the pilots will take three years so we are now looking at almost 2023 before the pilots will have concluded. The Department told us that there would be three pilots, one for each of the Services.⁶⁶

62 Committee of Public Accounts, Fifty-third Report of Session 2017–19, Ministry of Defence's contract with Annington Property Limited, HC 974, 13 July 2018

63 Letter from Stephen Lovegrove to Chair of the Public Accounts Committee, 30 November 2018

64 Q 167

65 Qq 169–170

66 Qq 163–166

35. The Department assured us that it would not put service personnel and their families in homes which are not of 'decent homes standard', and was attempting to bring all homes to a higher standard. It thought that over 80% were of 'decent home plus' standard already.⁶⁷

Formal Minutes

Wednesday 13 February 2019

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown	Layla Moran
Chris Davies	Stephen Morgan
Chris Evans	Anne Marie Morris
Caroline Flint	Bridget Phillipson
Nigel Mills	Lee Rowley

Draft Report (*Capita's contracts with the Ministry of Defence*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 35 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Eightieth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 25 February at 3:30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 14 January 2019

Stephen Lovegrove, Permanent Secretary, **Andrew Forzani**, Chief Commercial Officer, **Lt Gen Richard Nugee** (Chief of Defence People), **Lt Gen Tyrone Urch** (Commander of Army Home Command Group), Ministry of Defence, **Jonathan Lewis**, Chief Executive, Capita

[Q1-191](#)

List of Reports from the Committee during the current Parliaments

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)

Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)
Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools' finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898 (Cm 9643)
Thirty-Second Report	Cyber-attack on the NHS	HC 787 (Cm 9643)
Thirty-Third Report	Research and Development funding across government	HC 668 (Cm 9643)
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687 (Cm 9643)
Thirty-Fifth Report	Rail franchising in the UK	HC 689 (Cm 9643)
Thirty-Sixth Report	Reducing modern slavery	HC 886 (Cm 9643)
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699 (Cm 9643)
Thirty-Eighth Report	The adult social care workforce in England	HC 690 (Cm 9667)
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880 (Cm 9667)

Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696 (Cm 9667)
Forty-First Report	Government risk assessments relating to Carillion	HC 1045 (Cm 9667)
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695 (Cm 9667)
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929
Forty-Fourth Report	Reducing emergency admissions	HC 795
Forty-Fifth Report	The higher education market	HC 693
Forty-Sixth Report	Private Finance Initiatives	HC 894
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691
Forty-Eighth Report	Exiting the EU: The financial settlement	HC 973
Forty-Ninth Report	Progress in tackling online VAT fraud	HC 1304
Fiftieth Report	Financial sustainability of local authorities	HC 970
Fifty-First Report	BBC commercial activities	HC 670
Fifty-Second Report	Converting schools to academies	HC 697
Fifty-Third Report	Ministry of Defence's contract with Annington Property Limited	HC 974
Fifty-Fourth Report	Visit to Washington DC	HC 1404
Fifty-Fifth Report	Employment and Support Allowance	HC 975
Fifty-Sixth Report	Transforming courts and tribunals	HC 976
Fifty-Seventh Report	Supporting Primary Care Services: NHS England's contract with Capita	HC 698
Fifty-Eighth Report	Strategic Suppliers	HC 1031
Fifty-Ninth Report	Skill shortages in the Armed Forces	HC 1027
Sixtieth Report	Ofsted's inspection of schools	HC1029
Sixty-First Report	Ministry of Defence nuclear programme	HC 1028
Sixty-Second Report	Price increases for generic medications	HC 1184

Sixty-Third Report	Interface between health and social care	HC 1376
Sixty-Fourth Report	Universal Credit	HC 1375
Sixty-Fifth Report	Nuclear Decommissioning Authority	HC 1375
Sixty-Sixth Report	HMRC's performance in 2017–18	HC 1526
Sixty-Seventh Report	Financial Sustainability of police forces in England and Wales	HC 1513
Sixty-Eighth Report	Defra's progress towards Brexit	HC 1514
Sixty-Ninth Report	Sale of student loans	HC 1527
Seventieth Report	Department for Transport's implementation of Brexit	HC 1657
Seventy-First Report	Department for Health and Social Care accounts	HC 1515
Seventy-Second Report	Mental health services for children and young people	HC 1593
Seventy-Third Report	Academy accounts and performance	HC 1597
Seventy-Fourth Report	Whole of Government accounts	HC 464
Seventy-Fifth Report	Pre-appointment hearing: preferred candidate for Comptroller and Auditor General	HC 1883
Seventy-Sixth Report	Local Government Spending	HC 1775
Seventy-Seventh Report	Defence Equipment Plan 2018–28	HC 1519
Seventy-Eighth Report	Improving Government planning and spending	HC 1596
Seventy-Ninth Report	Excess Votes 2017–18	HC 1931
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347
Second Special Report	Third Annual Report of the Chair of the Committee of Public Accounts	HC 1399