



Ministry of Defence

MINISTRY OF DEFENCE
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THE RT HON THE EARL HOWE PC
MINISTER OF STATE IN THE HOUSE OF LORDS

MSU/4/1/2/3/ap

31st July 2018

Dear Mark,

Thank you again for your letter of 26 June objecting to the contingent liability in relation to the Defence Fire and Rescue project (DFRP). I wrote to you briefly on 4 July to acknowledge receipt of your letter and we discussed your concerns at our meeting on 16 July. I hope that meeting went some way to reassuring you about the scrutiny this project has been subjected to. As I explained, I have examined the objections in some detail with my officials. The Government has now received a legal challenge to this project. Procurement regulations mean that the award of the contract to Capita is suspended until this is resolved.

Although the Parliamentary objections and the commercial challenge are separate processes, it would be inappropriate for me to offer a final opinion on the objections until we are clearer on the legal process. Notwithstanding this, I remain satisfied that the use of the funding product that will generate the contingent liability remains appropriate. As promised, I am following up on some of your specific concerns.

The funding which creates the contingent liability will only be borrowed by Capita as they deliver on the contract. There would be a high bar to triggering the default mechanism which would mean that the contingent liability had materialised. The Ministry of Defence would have already received tangible benefits by that time. You raised concerns over Capita's past performance and that the MOD had not taken account of this. As I explained, public procurement regulations currently allow a relatively limited opportunity to take into account previous performance. However, the MOD requested three performance certificates for other relevant safety critical Capita contracts and these were all positive. The bids for the contract were subject to thorough scrutiny and due diligence processes conducted across Government, including in the Ministry of Defence, Cabinet Office and HM Treasury. These assurance processes included the financial sustainability of companies who had bid for the contract and their technical expertise to deliver it. The process of assuring any

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company's financial sustainability and performance against any contract continues whilst the contract is in operation. This is an area which the Government has taken significant steps to improve in recent years through the development of a more capable Commercial function working at the heart of Government. The Government remains satisfied that sensible and well managed outsourcing has an important role to play in the delivery of world class services.

We discussed the Company Watch ratings that were picked up in the media and raised following the statement in Parliament. These ratings are not a formal assessment of the company's financial performance and they are not used by the MOD as part of the formal due diligence process when assessing potential suppliers. The reports referred to were based on 2017 financial data. Since that time, Capita has undertaken a series of actions to improve their performance and restructure their business, including raising additional capital. As a result, their Company Watch score is now considered healthier and above the threshold for concern.

You mentioned the contract management arrangements for the Army recruitment contract at our meeting. As I have said above, contract management is part of any acquisition process. This contract will have a dedicated contract management team staffed by qualified personnel. Any contract will include a performance management mechanism to incentivise delivery of the services with financial consequences for the supplier if their performance does not meet the contracted standard. I hope that the legal challenge is resolved as soon as possible. At this time I remain confident that the Department's approach to the Defence Fire and Rescue Project remains the best way of delivering improved safety for firefighters and the Ministry of Defence whilst delivering value for money for the tax payer. Once the legal challenge is concluded I will be in a position to update Parliament further about this project.

Yours ever,

Freddie

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