

Public Accounts Committee

Oral evidence: MoD Recall, HC 35

Wednesday 22 June 2022

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Peter Grant; Nick Smith; James Wild.

The following were also in attendance:

Gareth Davies, Comptroller & Auditor General; Adrian Jenner, Director of Parliamentary Relations, National Audit Office; Marius Gallaher, Alternate Treasury Officer of Accounts.

Questions 1-92

Witnesses

[I](#): David Williams, Permanent Secretary, Ministry of Defence and Charlie Pate, Director General Finance, Ministry of Defence.

Examination of Witnesses

Witnesses: David Williams, Permanent Secretary, Ministry of Defence and Charlie Pate, Director General Finance, Ministry of Defence.

Chair: Welcome to the Public Accounts Committee on Wednesday 22 June 2022. Today we are questioning senior officials at the Ministry of Defence about the progress they have made on a number of projects since we last saw them. We all know that billions of taxpayers' money goes on defence spending, and we like to keep a close on this because even a small delay can be a very big cost to the taxpayer. We will be asking particularly about some of the delayed projects such as the Ajax armoured vehicle programme, which we published a Report on a while ago, and many other issues in the Equipment Plan and the wider spending of the Ministry of Defence.

I welcome David Williams, the Permanent Secretary, and Charlie Pate, the Director General Finance. Thank you both for coming. Your procurement Minister sent us a letter in response to our latest Report on the Equipment Plan. We were a bit dismayed at some of the reports about factual inaccuracies in our Report. The Minister's letter did not come up with anything that would suggest there were factual inaccuracies. I will ask Peter Grant to pick up on this thread.



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- Q1 **Peter Grant:** Good afternoon, Mr Williams and Mr Pate. When the Defence Equipment Plan Report was published, a response attributed to the Ministry of Defence said that there were factual inaccuracies in it. Was that response authorised by yourself as Permanent Secretary?

David Williams: I did not see the tweets until after the issue. The tweets themselves I think talk, in the last one, mainly about some data being out of date rather than inaccurate. In the usual way, Chair, you can raise this with me. For NAO Reports there is a process of accounting officer sign-off where I agree the factual accuracy of the Reports that the Comptroller and Auditor General produces, even if I do not necessarily agree with the conclusions that he draws from them.

- Q2 **Chair:** Apologies. We have a problem with the microphone. We will have to plough through. You have a leitmotif accompanying you.

David Williams: That process for the factual sign-off of NAO Reports, where I sign off or I note that I disagree with aspects of the facts, remains in place, and I remain satisfied with the factual accuracy of the NAO Report underpinning the PAC's consideration of the EP. It is based on the Equipment Plan that concluded just over a year ago. I know that you are as frustrated as the Comptroller and Auditor General and I were about how long it took us to get our respective publications out, but that does mean that some issues have moved on since that data was baselined. In the normal way, the formal response to PAC conclusions and recommendations will come through correspondence with you as the Chair and through the system of Treasury minutes, but I think you will understand why, particularly in the light of a deeply critical Report, Ministers feel the need for a more instantaneous response.

Chair: Well, Ministers can speak for themselves.

- Q3 **Peter Grant:** We fully understand that there will be differences of opinion and interpretation, but saying that the Committee has published a Report that has inaccuracies in it is quite a serious accusation. You have mentioned that that comment was included in a Twitter account. Is that a Twitter account officially endorsed by the MoD? Is it operated by your civil servants?

David Williams: The Twitter account is operated by our press office, so it has a relatively restricted following—effectively, media and press contacts—as opposed to the full MoD official Twitter account, which is followed by a much higher number of people.

- Q4 **Peter Grant:** It might not have very many direct followers, but if it goes to the media, you potentially have millions of followers, and presumably the reason why stuff gets tweeted from that account is that they want the press to pick it up and report on it. Have you taken any action to ensure that that kind of tweet isn't issued from that account?

David Williams: When we look at tweets to reflect the departmental and ministerial position, we take a view on whether the overall MoD account, which has about 600,000 followers, the press office account or a ministerial personal account, with a retweet, is the most appropriate



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vehicle. We have those debates with Ministers on individual issues. Ministers not unreasonably have an expectation that the Department is there to reflect the position that the Ministers themselves believe us to be in; and where that is not in conflict with my responsibilities, I see no problem in an official account being used in that way.

- Q5 **Peter Grant:** Well, it appears that one of the people who saw that tweet and still believes it was the Minister himself, because he has, I think, several times at the Dispatch Box said that that Report had factual inaccuracies in it. I think that was what the lengthy letter that he sent us yesterday was about, because we have been trying, as have other MPs, to get the Minister to tell us where the factual inaccuracies are. Although there are clearly, as I mentioned, points of view that he doesn't agree with, in the letter that he has sent us I cannot find a single example of where he has pointed to a factual inaccuracy. Do you see it as a serious matter if your Minister is saying things in the House of Commons that you now seem to be contradicting here?

David Williams: It is clearly an important matter for Ministers to give accurate accounts and information to the House, and I know that the whole ministerial team in Defence takes that responsibility very seriously.

Sir Geoffrey Clifton-Brown: Following up Mr Grant's question, I think it is a serious matter when a Minister makes an accusation in the House, so could we ask you to send us a letter that will be different from the letter from the defence procurement Minister and will state why the Secretary of State feels that our Report had in it inaccuracies, as opposed to only out-of-date information? You referred to the frustration of the delay in getting your documents out, which clearly had a knock-on effect on the NAO getting theirs out and then on us getting ours out. So, as opposed to just delayed and out-of-date information, it would be helpful if we could have a letter setting out why the Secretary of State believed our Report was inaccurate.

David Williams: I am happy to take that back.

Chair: We want to make sure that we are on the money as a Committee, and it is regrettable when the accuracy of our work is impugned unfairly. We are the first, I have to say, to put our hands up on the very rare occasion when there is a factual inaccuracy; we are absolutely clear about that. Moving on to the subjects in front of us today, we have a general smorgasbord of defence programmes. I am sure Mr Williams is looking forward to us covering his entire remit in one quick afternoon. Nick Smith MP will ably lead us off.

- Q6 **Nick Smith:** Good afternoon, Mr Williams and Mr Pate. Mr Williams, four months into the conflict in Ukraine, what lessons have you learnt about the equipment that the UK needs?

David Williams: It is a really topical question, to which the answer is evolving as the nature of the conflict in Ukraine itself develops. As I said at a previous hearing, our assessment is that the fundamentals of the Integrated Review hold good in terms of the acute threat posed by Russia,



the importance of NATO, and the equal importance, for us, of our progressing and delivering our defence modernisation programme. Clearly, a year or so ago we would not have expected there to be a war in continental Europe, and it is right that we should look again at some of the judgments that we made, particularly in defence around the IR. So we are in the middle of a process of gathering and reviewing lessons from the conflict itself—what has gone well or less well for the Russians and for the Ukrainians, as well as looking at the NATO response and the UK contribution to that response.

If I may highlight two themes, first the Department took a range of risk-based or threat-based judgments as part of the Integrated Review, set out in the defence Command Paper, about the investment in new capabilities and the transition to those, taking some risk on existing capabilities as we move into new capabilities in the second half of the decade. We will need to test those judgments about whether that risk appetite remains valid in light of the threat that we now see from Russia. It may remain valid in some cases; it may well be that it has changed in others. We also need to factor in the intention of our Swedish and Finnish partners to join NATO and what that means for collective defence in Europe. That is the risk-based point.

In terms of specific capabilities, there is lots of interest at the moment in long-range fires. The conflict has descended into a grinding artillery duel. I think we will want to look at those capabilities. We will want to look at C4ISR and how you join up your battlefield awareness with your ability to strike targets. More than new areas of capability, the question for us really is to look at our assumptions about stockpiles, sustainability, and availability of our current equipment. Quite a lot of western military planning is based on a heavy day one effect. If you don't win on day one, you need to make sure you have the resilience in your forces for a more prolonged campaign. I think questions in that area are likely to be ones that we will focus on.

We are gathering lessons now. We are obviously engaging with international partners as well. As part of an annual cycle, we will refresh our strategic assumptions and take changes, as needed, into our planning round later this year and in future years.

Q7 Nick Smith: Thank you for that broad-brush approach. At the weekend, General Sanders talked about a new era of insecurity and said that we need to accelerate the modernisation of the Army. How will you do that?

David Williams: One of the things we want to look at quite hard is whether our investment in new capabilities for the Army, which is due to deliver in the second half of the decade, can be brought forward. I suspect that we will not get through this session without talking about Ajax. As you know, there are a number of challenges in keeping our current plans in that particular area—the land environment—but we have been making good progress on Boxer, on Challenger 3 and on replacements for some of our ground-based air defence capability and artillery systems.

Thinking about where it is possible to bring some of that forward—or, if it cannot be brought forward, what that means for the timelines of existing capability—is exactly the kind of process we need to be going through over the course of the next few months, over the rest of this year.

- Q8 **Nick Smith:** It is great that you are doing that thinking, and that you are learning from is happening in Ukraine at the moment. When do you think you will go “snap” and work out exactly what you are going to do, given that changing piece?

David Williams: We will want to take some early lessons from the conflict into this year’s equipment planning round. Broader changes may need to wait for the next Integrated Review and Spending Review, towards the end of this Parliament, or whenever that may be. I do not think it is a single opportunity to reset all the IR. For me, it is a rolling process.

Partly, we need to ensure that we are getting the balance between capabilities, what is currently in our plan, and how we pay for it. There will also be some constraints around industrial capacity as we think both about replenishing stocks that we have given to the Ukrainians and about how we shape for the future.

It is not a one-snap decision; it will be an iterative process, but I would expect to see changes in our Equipment Plan priorities during the course of this year.

- Q9 **Nick Smith:** Try to be more specific. What changes do you think you will have to make to the Equipment Plan?

David Williams: The first area for a hard look is that of our assumptions around stockpiles. That would be an area of risk for me in terms of both whether our performance against our current planning assumptions is good enough—because there will be a number of ammunition natures for which we are not currently meeting the targets we have set ourselves—and whether those targets are in the right place. I think we will need to be more demanding about that depth of resilience in deployed forces.

We will also want to make sure that we are providing the right sort of investment for support, so that equipment that is deployed is available. We will also focus on how we can make our current fleet’s capabilities more lethal in the kind of conflict that we are seeing in eastern Europe. Rather than saying, “These programmes are wrong; we now need those programmes,” it is about how we adjust and refine what we have and are expected to get.

- Q10 **Nick Smith:** At some point—after those iterations, after the extra thinking and after looking at stockpiles—you will really have to move things forward if you are going to accelerate the modernisation, as the General says. You have to provide more clarity, Mr Williams, on when that is going to happen. There is a terrible war taking place just down the road in middle Europe. When will we learn the lessons from it and make the necessary changes?



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David Williams: We are learning lessons now. As I have also said before, you need to be a bit careful; sometimes you need some perspective. We had a hearing shortly after the Russian invasion, and there was quite a lot of interest in whether we were investing enough money in heavy armour. We had a hearing several weeks later in which we were asked whether we might be investing too much money in heavy armour.

Chair: Heavy armour that works would be a good start.

David Williams: Indeed, so a bit of perspective is sometimes needed. As a first step, I would expect us to be making spending commitments with money in-year in getting after some of our stockpile assumptions.

Q11 **Chair:** Are you looking at the length of time it takes from your procurement of some of the standard bits of kit that are relatively quick to produce—ammunition and so on—so that you are standing up the supply chain to produce it quickly?

David Williams: Yes, there is that. Sir Geoffrey and I had an exchange in a previous hearing around some of the challenges we have in replenishing stocks that we have donated to the Ukrainians. This is not unique to the UK; our American and European allies are finding the same. We are donating stocks or products that we have not bought for five years, 10 years or more, and the supply chain is not there, so there is a question for us.

On the one hand, we want to get after the capability issues quickly, but simply now leaning in, surging capacity, replenishing the stockpiles and then finding out in three years' time that we still don't have a viable supply chain is something we will need to think about. I suspect we will want to think about a more sustainable supply chain—we have begun that discussion with industry—for some of our key stocks and ammunitions, as well as wider equipment support, so that when we do need to surge, we are surging from a baseline that can be responsive, rather than a baseline that worked for us 10 years but isn't there now.

Q12 **Nick Smith:** Thank you for those answers, Mr Williams. We know that UK forces have been training the Ukrainian defence forces for a good while now. What extra new training have we provided in recent months, and what will we be providing in the months ahead?

David Williams: You are right that since 2015 the UK has provided training support to Ukrainian armed forces through the Orbital programme. Most recently, we have been supporting Ukrainian armed forces with training specific to the equipment that we or our allies have been donating, so training on how to use some of our ground-based air defence systems and on how they can use the 120 armoured or protected mobility vehicles we have given them.

The next phase is how to use the GMLRS—the multiple-launch rocket system—that we are providing. That is both about practical matters—how to lock on to a target and press fire—and tactical ones. It is not going to be to Ukrainian advantage if they use a sophisticated guided multiple-

launch rocket system as though it is a stack of 152mm shells, so it is tactical as well as practical training.

During his visit to Ukraine last week, the Prime Minister announced that we are also developing proposals with the Ukrainians to provide more basic training as they pull forward reserves and think about the need to relieve some of their units on the frontline or prepare for future operations. That is the next phase of training support that we are getting ready to launch very soon, in order to train around 10,000 soldiers over a four-month period in basic infantry skills, making sure they are properly equipped and giving them a better chance of surviving, fighting and winning when they are then deployed.

- Q13 **Nick Smith:** It is pleasing that we are supporting the Ukrainians in that way, but that must place big demands on our own capacity and the preparedness that we, as a nation, have to undertake. How able are we to provide that extra training? It sounds fantastic but, being fair, it also sounds like a big deal. Will that put pressure on the UK's defence?

David Williams: I have asked the specific question about the impact of this proposal on our training pipeline, but it is a proposal that we have worked up. With all of our support to Ukraine, we make an assessment of the impact on our own force readiness and ability to deploy in support of NATO or for other eventualities. That is a factor in how much of our current stockpile we have been able to donate, and it is a factor in how we are sizing the training offer to the Ukrainians. At that kind of level—10,000 over four months for really quite short, focused training, but nevertheless valuable to our Ukrainian partners—the disruption is minimal and manageable.

- Q14 **Nick Smith:** Was the Prime Minister's speech reflecting existing plans, or driving new capacity from within the Department?

David Williams: It reflected a proposal that we had made to him.

- Q15 **Nick Smith:** If I may, Chair, I would like to talk about Ajax, because it is so important, particularly for south Wales and, of course, the security of our country. It is important we make progress on it sooner rather than later—I am sure you agree, Mr Williams. Having undertaken further trials, do you now understand whether the modifications proposed by General Dynamics will adequately address the noise and vibration issues?

David Williams: Not yet. We are in the middle of those trials. The Minister for Defence Procurement set out the position in mid-May, and I do not have a lot to update on that. The Millbrook trials that we have discussed have completed, and we have the evidence from that, which we are working through.

- Q16 **Nick Smith:** Can you tell us what that is saying, please?

David Williams: I do not have the detail. It gave us sufficient confidence to generate a safety case to move forward with the user validation trials, which is really the next phase, where we test whether the fixes that GD are proposing on noise and vibration work and meet our requirements.



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The principal takeaway from Millbrook—if there are other takeaways, I am happy to write with those—is that there was a sound basis for moving to that user validation phase. That started in mid-May, and we had two issues on the first day. The first was some anomalies around whether there was any impact on the hearing of personnel involved in that trial, and indeed in a control group. As you would expect, we have a very vigorous testing regime, testing people before a day's activity, at the end of the day's activity and so on. I am happy in my own mind that those anomalies have now been resolved.

However, there was also an issue on the day with noise and intelligibility at higher vehicle speeds through the radio system—not damaging to health, but nevertheless, a safety concern about whether you can operate the vehicle effectively if you cannot be sure about the quality of communication between the driver and the commander, and obviously an issue of how, in the end, we want to operate and fight with the vehicle, as you need to be able to have intelligible communications between the various crew positions. We are working through that issue with GD at the moment to understand whether it is specific to the set-up in the individual vehicle, to the training activity and the training set-up—we are looking at different vehicles in different locations—or whether it is a more systemic issue that we need to get after.

That is just being processed now, at the end of which we will get into user validation trials again. As they start, I think we should expect some starting and stopping, because we have very tight controls around the safety of the crew in those vehicles.

Q17 Nick Smith: Can you put that in plain English? Can the commander of the vehicle and the driver of the vehicle hear and understand each other?

David Williams: At higher vehicle speeds, there is either interference or cutting out. We had a challenge at the start of this hearing about feedback, and some of that will be system-related; some of it—

Q18 Nick Smith: You are not really under attack here, are you?

David Williams: No, we are driving around a training ground. The principal reason for wanting to address it is to ensure the conduct of the trial is safe. You do not want a driver driving a vehicle if the commander's "Turn left, slow down, speed up" is not getting through in the right way.

It is also an interesting question for us when we come to reliability growth trials that, actually, you can operate and fight the vehicle in the kind of battlefield scenarios that we are looking for. That work is very much under way and we look to restart and complete these validation trials as soon as we can. The final phase of trials after that is reliability growth trials, which is, once we are satisfied with noise and vibration, just confirming how the vehicle meets the rest of the requirements that we have set for it. We expect and hope to start that later this year.

Nick Smith: Just to say on behalf of my constituents and my neighbouring colleagues' constituents in south Wales, we wish you very



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well with that important programme and important vehicle for our country's security and jobs for local people.

Chair: Thank you, Mr Smith. Sir Geoffrey Clifton-Brown.

- Q19 **Sir Geoffrey Clifton-Brown:** Good afternoon, Mr Williams and Mr Pate. Just going back to Ukraine for a moment, where is the money coming from to replace all the equipment we are sending to Ukraine? Is that manageable within the existing budgets or will there have to be a supplementary budget?

Charlie Pate: We have agreed with the Treasury and it has been announced that we are receiving £1.3 billion for this year. That goes towards operations and some of the work that Mr Williams was describing, in the normal way from the special reserve, but also for the procurement and replenishment of stock. That has been agreed with the Treasury. We also have agreement going forward, because we will not be able to do all that replenishment within this financial year. We do not have the money, but we have a written agreement with the Treasury that we will be refunded for that over time as we can prove how we are replenishing.

The other thing I would say about replenishment is, again, it has been agreed with the Treasury that, where it makes sense, that will be like for like, but in some cases, the kit is now outdated and we would like to update that, or, indeed, as our assessment of the situation is progressing, we might want to go down slightly different routes for the precise kit to meet the capability. Again, that will be a discussion with Treasury, but it recognises the situation we are in.

- Q20 **Chair:** Can I just check that when you say "the precise kit", it is other kit that you have already procured, not going out and starting a whole new procurement process?

Charlie Pate: It will generally be other equipment that is being procured. I do not want to close that down entirely and the Treasury is being open, so that we are replenishing with kit that we actually need—

- Q21 **Chair:** That makes logical sense, but just from the point of view of the Committee, if you are starting a whole new procurement process, we can see that taking quite a lot of time, so is it just drawing in other kit rather than the kit that you have used?

Charlie Pate: There may be occasion, as we assess what we really require in terms of replenishment, where it might be that. I did not want to mislead in shutting that down entirely.

Chair: We will keep an eye on that. Sir Geoffrey.

Sir Geoffrey Clifton-Brown: I am very happy that you divvy up my questions between the two of you.

Chair: I was going to ask Mr Grant to come in on this point.

- Q22 **Peter Grant:** Following on from the Chair's last comment, first, I think you said that it is not possible to replace all the money that has been



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spent on supporting Ukraine this year. What happens if you have to spend the same amount of money next year? Some analysts are warning that we could be looking at a war that goes on for several years. What are the financial implications of you still trying to pay back the money you have used up this year at the same time as having to spend more, possibly for five or 10 years to come?

Charlie Pate: I would just separate. What I was trying to refer to is the money that the Treasury has agreed that will replenish the stocks we have sent out to Ukraine. Part of that will be this year, but some of that we already know we will not spend in this year. That is one issue. The other is what happens if the conflict continues and the Government want to continue supporting the Government of Ukraine. That will have to be an ongoing discussion with the Treasury, and indeed it is. We speak to them regularly, as you can imagine.

Q23 **Peter Grant:** I appreciate that a lot of the details of those discussions are not for public broadcast, but can you confirm that the MoD and the Treasury are already looking at a possibility that there could be both a military and a significant financial contribution going to Ukraine for several years to come? Have you had that discussion with the Treasury?

David Williams: In terms of our support to the Ukrainian armed forces, we are taking a long-term view. The precise length of and nature of the conflict is clearly difficult to predict, but even if the conflict were to end relatively quickly on favourable terms for the Ukrainians, there will be a long period of rebuilding their economy and infrastructure, and rearming and reequipping their armed forces, so we are thinking about that.

For the medium term, it is not simply a question about the UK or other international Governments providing aid, but about what the Ukrainians might choose to buy. Even now, with some of the work we are doing to support them in the repairs or sustainability of their current equipment, we are facilitating commercial relationships between the Ukrainian Government and industry, rather than leaving the Government to step in and fund and donate, as it were. We should not forget that although the Ukrainians are clearly focused on the fight today, you get to the point where the size and shape of the armed forces that they want will be a matter for their Government and for them to fund.

Q24 **Peter Grant:** There is a difference in urgency, isn't there? There will be a major programme of reconstruction in Ukraine; if that takes longer than they want it to, they can still survive like that. If there are any delays or hiccups in the supply of weaponry to Ukraine, the consequences for Ukraine could be catastrophic.

David Williams: We have been agreeing funding with the Treasury on a rolling basis. What I am happy to say to the Committee at the moment is that the availability of funding from within the Department or reimbursed by the Treasury's special reserve has not been a brake or a constraining factor on the support we have been providing. I expect that to remain the case for the foreseeable future.



Q25 Sir Geoffrey Clifton-Brown: Before we get into any further equipment questions, let me say that we are living in extraordinary economic times, and you are having to battle with your equipment budget on inflation—the difference between defence inflation and general CPI. We have seen the pound depreciating against the dollar and the euro, and fuel prices going up hugely. You are going to have to consider the increase in wages of your personnel. How are you considering all those factors in relation to the affordability of the defence equipment budget?

David Williams: Let me start, and then Mr Pate might come in with some colour. The impact of inflation is clearly a risk. We have discussed it in the context of the Equipment Plan, so it is a risk that we are very alive to.

On the Equipment Plan itself, the impact is likely to materialise in one of two ways, or possibly a combination of them. First, there is a clearly a potential financial impact, as industry finds that both the cost of raw materials, and the pay rates it needs to offer to attract and retain the talent it needs to get the work done, are higher than we or they had planned. There are things that we can do to mitigate that risk through the contractual arrangements we have—whether inflation is in or out of those contracts—as well as through forward purchases and through some layering of contingency around our allocated budget that we have in the EP.

There is also a high risk that one of the impacts will be schedule risk rather than simply financial risk, where there are pinch points in the supply chain in terms of, for example, availability of certanium—a heavily Russian controlled commodity—or where there is an impact on suppliers' ability, particularly further down the supply chain, to have the staff they need to get work done. I suspect that we will probably see schedule pressure before we see material cost pressure, but the cost pressure will come at some point. Charlie, do you want to go into some of the examples or flesh out some of the mitigations a bit?

Charlie Pate: The permanent secretary has set out the impact that we are seeing, but we do have some protections against this. They are in no way full, but we are making the most of them. We forward purchase gas and electricity through the Crown Commercial Service. All electricity for this current year is now purchased, and 80% of gas. We have had to put £200 million more into the budget for this year for utilities, but it would have been substantially higher if we had not had those forward purchases in place. Similarly for foreign exchange—we have discussed that many times—but most of our foreign exchange is covered, again, for this year. Around a quarter of our annual spend with industry is through firm price contracts, so the supplier bears the risk of inflation there. Of course, all those protections end, some of them sooner than later, and that will leave us with a pressure.

We are doing other things. For example, we are trying to bring forward expenditure where we can. We have agreed some long-lead item expenditure, and indeed taken some risk on that. For example, on Type 26—the second batch of ships—we have not yet signed off the full



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business case, but we have purchased some of the steel that we know we will need for them ahead of time. On the cost balance between storage and inflation now, it works out that it is better to purchase and store. In total we brought forward a couple of hundred million of spend of the Equipment Plan last year and we have already done about half a billion this year, again from future years. We are doing what we can.

I do of course hold contingencies—you know there is about £4 billion in the Equipment Plan—but we do expect commercial teams to negotiate and not just be price takers in this, while reflecting that it is in no one's interest to see firms really struggle through this time, and recognising that we need to share the burden, I suppose.

My teams are doing an awful lot of work to continue to assess and monitor the situation, so we can intervene where we can on specific contracts and proposals. We will report more on that in the Equipment Plan this year.

- Q26 **Sir Geoffrey Clifton-Brown:** Talking of negotiating, all too often in the past when negotiating these big procurements, it seems we have not even thought about retaining any interest in the intellectual property. Is that something you consider when you are negotiating big projects?

Charlie Pate: Yes, it is very much at the centre of what we look at these days. Indeed, it is a part of the defence and security industrial strategy that we have a far better balance on what we own and retain as opposed to what is in industry. That has been an issue with some of the digital contracts. As we open these up, it is us wanting to retain the IPR so that we can then buy the services, rather than essentially buying a black box, so we do not know what is within that and are just getting a service.

- Q27 **Sir Geoffrey Clifton-Brown:** Even more than that, you can retain a stake when that IPR is used for exports.

Charlie Pate: Yes, potentially, and we do see that through the commercial exploitation levy.

- Q28 **Sir Geoffrey Clifton-Brown:** Okay. This is my last question for both of you, I promise you—from me, anyway—on Ukraine. It seems that one of the lessons that has been learnt from Ukraine is the importance of systems integrations, particularly systems integrations between the three forces. I do not want to get back to the dreaded subject of the traffic lights, but after having seen the traffic light list, some of the systems integrations—particularly radar—are on the amber to red spectrum, and your letter mentions ECRS 2, Crowsnest, Wedgetail and so on. Those are really important in systems integrations. What is being done to bring forward those important integration bits of equipment?

David Williams: Yes, they are very important capabilities, although one of the lessons from Russia-Ukraine is that the ability to do that combined all-arms manoeuvre is not just about equipment capability. It is absolutely about tactics doctrine, what you exercise and how you train. The human dimension is as important as the technical. All the projects that you mentioned are on our GMPP—Government major projects portfolio—and



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are getting a lot of current attention. Obviously, they operate in slightly different environments—Crowsnest, for example, is primarily a deployed maritime platform. To go back to Mr Smith's earlier question, I touched briefly on C4ISR, and this may be one of the areas—

Sir Geoffrey Clifton-Brown: Well, Morpheus is one of the bits on the Ajax.

David Williams: Indeed. Look, it seems that the Russians have a great deal of difficulty understanding what is going on in front of them on the battlefield, and that is absolutely not a position that we would want to be in. We have lots more capability in that space already. We are already good at fusing data from platforms, whether it is fast jets and other airborne platforms, to ground manoeuvre. Delivering on those enabling capabilities is really important.

Q29 **Sir Geoffrey Clifton-Brown:** We are going to have to speed up the answers, I fear—otherwise we are going to get the Chair's wrath.

I suspect that one of the differences of opinion between us, your letter and what the Secretary of State has said relates to R&D. Your letter helpfully says that you are proposing to spend £6.6 billion in the SR period on new investment in R&D and, furthermore, that you have allocated £4.1 billion from 2025 to continue to exploit our R&D investments. Can you confirm that those are the up-to-date figures?

David Williams: Yes.

Sir Geoffrey Clifton-Brown: Thank you.

Charlie Pate: They were in the Equipment Plan.

David Williams: I think the £4.2 billion is at the cusp of our factual agreement. They were in our document, and they are referenced in the Comptroller and Auditor General's Report—albeit in a footnote, I think—rather than a lower figure that he saw more evidence for.

Q30 **Sir Geoffrey Clifton-Brown:** A very interesting part of your table talks about long-range weapons, hypersonics and laser-directed weapons. Will that R&D budget be capable of dealing with some of the most up-to-date, modern threats?

David Williams: That exploitation money will allow us to get after the most important of those. We are engaging heavily with American and Australian colleagues, through the non-nuclear submarine bits of AUKUS, on hypersonics, and there are certainly opportunities to pool knowledge there, which will allow our R&D money to go further. If we were looking for a major programme of investments in hypersonics as a mainstay of our capability, I think that would come with a larger price tag.

Q31 **Sir Geoffrey Clifton-Brown:** Brilliant. Thank you. Can I just clear up with you the vexed question of how many F-35s we are actually going to purchase? The table says we have already purchased 48. You now intend to purchase another 26. That total of 74 that the Department is



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purchasing is considerably less than the 138 it originally planned. Are those the up-to-date figures?

David Williams: Yes, they are, with the exception that, obviously, we have lost one of them.

Sir Geoffrey Clifton-Brown: With the exception of?

David Williams: We have lost one.

Sir Geoffrey Clifton-Brown: Ah, yes. We knew about that.

David Williams: So the 74 will be 73.

Q32 **Sir Geoffrey Clifton-Brown:** You are not going to buy an additional one to replace it.

David Williams: We will take a view. Should we buy future platforms beyond the 74, we would address it as part of that.

Sir Geoffrey Clifton-Brown: Right, okay. Can I move on to the vexed subject of Dreadnought?

Chair: Just before you do, Mr Smith has a question about the F-35s.

Q33 **Nick Smith:** Mr Williams, I did not properly understand your answer about whether you would be replacing the F-35 that has been lost. What is going to happen, please?

David Williams: I will probably need to check this. I do not think we have current plans to buy another one to replace it, but let me check that and confirm with the Committee.

Nick Smith: Thank you, Chair.

Chair: Our concern is that the point of the F-35s is that there are enough of them to service the carriers, so the total number does still matter. If you can write to us on that, that would be helpful.

Q34 **Sir Geoffrey Clifton-Brown:** May I take you on to Dreadnought? Again, I think there is a bit of a difference of opinion between us in terms of what we were inquiring about, and particularly the contingency. I think we were concerned that the £10 billion contingency was just going to be considered as part of the Dreadnought budget; we wanted to see careful constraints put on you by the Treasury as to when that money could be released. You do tell us very helpfully in your letter, which has updated a lot of our thinking, that the Government's major projects review has already placed action on Her Majesty's Treasurer, as the holder of the contingency funding, to set out updated guidance on accessing the Dreadnought contingency. When do you expect that to be resolved?

David Williams: We are in negotiation and discussion now, so I expect that we would be able to give you an update for the autumn. I would certainly expect it to be clear in time for the review of Dreadnought that the National Audit Office is undertaking for you for later in the year.



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There are lots of controls at the moment on access to that contingency. My point in the previous hearing, which perhaps I didn't make in quite the right way, was not that I want no controls on access to the contingency, but there is a world in which you might imagine that a budget of £41 billion with incentives to drive it down gets you to a better value-for-money proposition than a budget of £31 billion with incremental release of additional funds when you need it. This is about how you deploy risk provision to deal with issues as they arise. So access to the contingency in a timely way is really important; getting the balance right between that access and control is an entirely fair challenge.

- Q35 Sir Geoffrey Clifton-Brown:** Because what we don't want to see, as I prefaced in my question, is that that £10 billion just becomes considered as part of the programme expenditure. It is there as a contingency and to be used only if unexpected factors arise, is it not?

David Williams: Well, not necessarily "unexpected", because we will have risk projections outside the core costing that we look to mitigate, but some of those risks will materialise, and those will be a first call on contingency.

- Q36 Sir Geoffrey Clifton-Brown:** Okay. We also discussed at the last hearing the warhead contingency. We want to be very clear that the warhead expenditure is separate from the Dreadnought expenditure—from the submarine expenditure—so that there is no fudging between the two budgets and it is quite clear to us what is in each budget. And we would expect the same sort of controls, if you establish a warhead contingency, to be in place for that. How far have we got with those discussions?

David Williams: In principle, the position you set out is right: you wouldn't routinely expect trading between the warhead and the boats, unless it made sense to do that; and the kind of contingency arrangements that work for the boat are likely to work for the warhead. We are a little way off being able to agree that, because where we are in the replacement warhead programme is, obviously, much earlier and the range of potential costs is much greater. So I think that conversation will flow from, and follow the work on, the Dreadnought contingency over the next few months.

- Q37 Sir Geoffrey Clifton-Brown:** When do we expect to come to some form of conclusion on that?

Charlie Pate: It was always the intent at SR20 that we would have this available for the next expected Spending Review, at least as an initial view of where we're at. There is one extra proviso I would give. I agree about not fudging between the numbers, but, with in-year management, proper controls and full transparency, the ability not to trade between but to use money appropriately—I think you would expect us to do that.

- Q38 Sir Geoffrey Clifton-Brown:** I understand that not decommissioning the nuclear submarines in Plymouth is becoming a real difficulty in terms of space and where to put equipment when you have these hulls lying there and taking up a lot of space. Do you expect to start the defuelling next year?



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Chair: Just to be clear, it is Plymouth and Rosyth.

David Williams: It's Plymouth and Rosyth, so I will take it in two chunks. Rosyth is where we are doing the dismantling. The commitment the Department had made was to have proven the concept of dismantling for the first boat by the end of '26, and we are making good progress towards that, including some important milestones earlier this year with the removal of two of the steam generators and a pressuriser and, on three boats, actually being able to remove the low-level radioactive waste. The next hurdle—

Q39 **Chair:** Just to be clear, when you say "low-level", that is not the reactor but any material on the submarines, presumably.

David Williams: Well, it is part of the propulsion system, which is how the steam is converted into movement and so on.

Q40 **Chair:** Only a small part of it, then.

David Williams: I won't dwell on my understanding of nuclear physics. The next phase, between now and '24, is how we deal with the medium-level, or intermediate-level, waste, with a particular focus on how we get the reactor pressure vessel out and dismantled. But we are currently on track to deliver the first boat dismantle by the end of '26, which sets our pathway for the future.

On the defuelling, we have already defuelled 11 of the 21 boats. There are 10 to go, and those 10 are all down in Devonport. Space in Devonport is tight. Both Mr Pate and I have been there over the past few months. The engineering challenge is as much about how you fit maintenance of different classes of boat, with frigate work and defuelling, into quite a thin but long waterfront. There is progress there. Work on the No. 14 dock, which is the facility that we need in order to recommence defuelling, is under way and progressing. I have a greater sense of risk about this for the end of next year than I do on the dismantling in Rosyth.

Q41 **Sir Geoffrey Clifton-Brown:** Can I just add to your greater sense of risk? How does this programme fit into the defuelling of the Vanguard submarines? That will presumably be much more difficult, because the spent fuel is much newer. Are you going to get these ones out of the way before you get the Vanguard ones coming in in the '30s?

David Williams: Well, the programme at the moment is about size, in terms of space, for the boats up to and including the end of Vanguard class. Dreadnought is another proposition. In our planning for the programme, we are assuming that the four Vanguard boats are in scope.

Q42 **Sir Geoffrey Clifton-Brown:** One further question on Dreadnought. As it is the most expensive equipment programme, it will probably suffer the worst effects of inflation. Who bears the cost of that—not only with Dreadnought, but with the rest of your equipment?

David Williams: Quite a lot of the Dreadnought boat is sole source. Charlie, do you want to come in?



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Charlie Pate: The inflation would be a call on the contingency. We set the budget and the £31 billion at the certain price level, which is agreed with the Treasury. That is a very clear case, and events have changed that we cannot control.

Sir Geoffrey Clifton-Brown: Can I move you on to the dreaded subject of the defence estate?

Chair: Before we move on to that, Mr Peter Grant wants to come in.

- Q43 **Peter Grant:** Mr Pate, can I go back to the answer you gave to Sir Geoffrey a wee while ago about the impact of inflation? You said that a lot of the existing contracts are on firm price, so the contractor bears the risk. Do you have suppliers or contractors that are too important to be allowed to fail if they are not able to carry that risk? Is there a likelihood that the MOD ends up picking up the tab anyway because you just cannot afford to let a supplier go under?

Charlie Pate: I think we have talked about this in previous sessions. Particularly through covid, we definitely increased our understanding of our supply landscape, and we are now seeing some of the benefits of that in understanding particular firms and particular sectors where we need to be careful. What I was trying to imply before is that we absolutely have clear contracts. We will stick to those contracts, but as we come to renegotiate, we will be very clear on ensuring that our suppliers can continue to supply what they need to for the defence of the realm.

- Q44 **Peter Grant:** I appreciate that there can be significant commercial sensitivities. You do not want a supplier to know that you would bail them out if they asked you to, but have you provided any financial planning or a contingency in the event that you effectively have to bail out a supplier?

Charlie Pate: It is part of our Equipment Plan contingency, which we have published—the £4 billion or so.

- Q45 **Chair:** We have looked at other major projects, and in terms of the cost of steel alone, I know you have hedged on that, but you can only hedge so far. It is a big concern, and that is a cost that is genuine and real.

Charlie Pate: I will be very clear with the Committee: this is obviously our biggest financial challenge. Without it, we are clear that the Equipment Plan is balanced, as it was last year, but with it, we do not yet fully understand the financial impact of inflation. It will become clear over the coming months and years, I would say, but that is challenging the affordability of the plan.

- Q46 **Chair:** It is difficult to reprofile a programme when you need the steel, and you can't—

Charlie Pate: Yes.

David Williams: If it helps, particularly in the nuclear enterprise, there is a willingness to be a little more interventionist than perhaps we have

previously been. The fact that we now own Sheffield Forgemasters is a relevant response to your question, Mr Grant.

Chair: Thank you. I do not want to start going into the issues around the steel industry in the middle of this hearing, or we will be here for a long time. It has been a knotty issue for Government after Government.

Q47 **Sir Geoffrey Clifton-Brown:** Mr Williams, could you update us on where we are with the litigation with Annington Homes over enfranchisement?

David Williams: The short answer is that it is live, so I cannot say very much. As you know, we in the Ministry of Defence have decided to test our statutory enfranchisement rights through the enfranchisement of a small number of properties. The Minister set that out in a statement to the House, and I spoke briefly to the Committee about it earlier in the year. Leave has been given for a judicial review of that decision, which we welcome, because we want to test our rights before we make decisions on what we might practically do with that, and that process is live now. We are just coming to the end of the first phase of document disclosure. *[Interruption.]*

Chair: Before Sir Geoffrey continues, I would just like to welcome our colleagues from the Nepalese finance committee, who have joined us for the remainder of this session—a very warm welcome to you. Let me just reintroduce our witnesses: the permanent secretary at the Ministry of Defence, and the finance director at the Ministry of Defence. Back to our deputy Chair, Sir Geoffrey Clifton-Brown.

Q48 **Sir Geoffrey Clifton-Brown:** Can we talk about disposals? Basically, between 2017 and 2019, you really had not made many disposals. How is the disposal timeline going? Can you update us on that?

David Williams: First, on the disposal target that was set for the Department in the 2015 Spending Review, as I said to the Committee in a previous hearing, there was essentially no prospect of us meeting that, and Ministers have agreed that that target is no longer applicable. We are focusing instead on estate disposal, primarily through the Defence Estate Optimisation programme, which is looking to both reduce the size of the estate and give us some investment benefits in terms of sustainability, greening, energy consumption and so on.

We have been working through the changes to that Defence Estate Optimisation programme in the light of the Integrated Review, and changes to that plan consequent on Future Soldier were set out last November. We have a few more changes still to work through, but the revised plan is due to come up for approval by the investment approvals committee, and we will be able to discuss that more fully over the course of the next few months. It will probably be available for discussion in the autumn, but in the meantime, we are making reasonable progress on estate disposals. Indeed, for the last financial year, we exceeded our target of around £160 million of disposals, achieving a value of around £180 million.



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- Q49 **Sir Geoffrey Clifton-Brown:** Can you tell us about your void reduction? I understand there are 1,760 void properties that are likely to be void for the next 10 years, which will still need to be maintained in one state or another. That does seem a bit wasteful, doesn't it?

David Williams: You pick the number that—I went back to the policy team on that number more than any of the other numbers in the reply that I sent the Committee, saying, "Really?" If that is the case, I don't quite understand how we are committing to a target in the first part of the decade.

We have set a target of getting down to a 10% void level, which is just under 5,000 properties. At the end of March, we were at around 17.5%, which is about 8,500 properties. We need to hold some rattle accommodation, as it were, to accommodate moves of units and moves between bases. The current assessment is that the 1,760 figure that you mentioned, Sir Geoffrey, is a number that I'm particularly interested in looking at, as part of signing off the new, revised and improved defence estates accommodation plan—

- Q50 **Sir Geoffrey Clifton-Brown:** Could you let us have a note when you have fully investigated that? I would be grateful for that.

David Williams: Yes.

- Q51 **Sir Geoffrey Clifton-Brown:** I am interested in the state of your defence houses. I was interested to see that you now do not let out any homes to defence families that are below the decent homes standard, but I don't think that quite applies to the single living accommodation. Can you give us an idea of how much progress you are making on single living accommodation?

David Williams: We might take this question between us. First, the foundation for making progress on the single living accommodation piece is really understanding the material state of the accommodation that we currently have got.

Although it has been later than we would have liked, we are now making good progress in rolling out the single living accommodation management information system, or SLAMIS, programme. We have got about 20,000 bed spaces on it already and another 30,000 are already rolling out. There are about 80,000 still to come. Most of the services will be complete this year. I think that completing the roll-out of that for the Army will just slip into the first quarter of 2023.

Whereas historically we have had quite good information about the material condition of an accommodation block, we haven't had good information about the material condition of the individual rooms and facilities within it, and that is really what this management information system allows us to do.

In the meantime, we are investing in upgrades to accommodation, and I hope that Mr Pate may have some examples of that.



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Charlie Pate: All four frontline commands are investing, and the current plan is around £1.6 billion over the next 10 years in single living accommodation.

Just to expand a little bit on what Mr Williams said, we have now set minimum standards for SLA around eight themes—so, things like lighting, security, ventilation and sleeping provision. We will now go through the process of using SLAMIS and assessing the state of SLA against those standards, with the intent of rolling out work programmes from 2023-24 onwards, focusing on the worst condition in the first place. From April 2024, we will not be allocating—our intent is not to allocate—the worst-condition SLA any more. That is a change in approach as we move forward with this improving of the estate.

- Q52 **Sir Geoffrey Clifton-Brown:** Can we have an absolute assurance from you that accommodation that produced the sort of photographs I showed you in the last hearing—photographs of green mould—will not be reallocated in future?

Charlie Pate: Our intent is absolutely not to allocate housing with significant issues like that. The photographs that you showed at the last session were, I think, of service families' accommodation rather than SLA, and we have considerably changed our approach on damp and mould recently.

There was a previous approach that, really, damp and mould was down to lifestyle choices, as in drying washing inside and keeping the windows shut—that kind of thing. Since 1 April, we have now got a dedicated service helpline that has received over 500 calls since it opened. We now send out a surveyor to those calls and to those homes—this is SFA that I am talking about—to consider whether there are structural issues—

- Q53 **Chair:** This is single forces accommodation?

Charlie Pate: Yes, where the work needs to be done. If it is still habitable, the aim is to do that work within six months. If it's not habitable, the family is moved immediately and then that work is carried out. We no longer allocate houses that have had a damp and mould issue until we are clear that that has been permanently resolved, so there has been considerable change and, with the Committee focusing on that, I think we are responding.

- Q54 **Sir Geoffrey Clifton-Brown:** If our colleague Mr Francois were here, I think he would be asking you questions about maintenance. Although I give you credit, in that the armed forces continuous attitude survey has cited 63% of accommodation as providing value for money, that means that quite a considerable amount is still not providing value for money. In particular, there are still considerable issues with maintenance. It is not acceptable for those in single living accommodation in our armed forces to come home and find that they have had no hot water for several days. What is being done to improve maintenance? Things such as mould, which you were talking about, is a continuous maintenance problem that any landlord has to deal with.



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Charlie Pate: A lot of the SLA investment that I talked about before is going into upgrading rooms and accommodation. Again, those standards will enable us to set a minimum and ensure that we are meeting it over time. We will not be able to fix this immediately, because it takes time and money to fix, but the investment is in place.

On SFA, we have changed over the contracts—so, the future defence infrastructure services went live at the beginning of this financial year. Those have made really significant changes in the approach to SFA and doing renovation and more minor works. I should be clear with the Committee that we have had issues with one of the three contractors in the changeover, and there have been missed appointments, but we are working through the technical solution to that—or, the contractor is, and it's on them to provide us with a solution.

Beyond that, we are already seeing improvements, and we expect to maintain that through reinforcing the contracts. For example, we now expect things to be fixed on the first visit rather than the contractor being incentivised to return-visit, so there have been significant changes in the way we have set the contract up to improve the service for our families.

- Q55 **Sir Geoffrey Clifton-Brown:** On the one hand, this is frustrating, really. You say it will take time, but if any landlord were taking the time that you are taking to remedy some of the defects, there would be complaints to goodness-knows-who about the landlord's performance. To be absolutely blunt, I find this "taking time" business unacceptable. Although 63 is up from 61, that still means that 37% are not satisfied. That figure or over a third, or nearly two fifths, is not satisfactory. What are you doing about this problem? It's really not satisfactory, in a day when we are expecting all our employees to live in better and better standards.

Charlie Pate: We accept it's not good enough, and that is why the new contracts have been put in place and why the investment in SLA is in place, with minimum standards that—

- Q56 **Chair:** But you're saying it's a 10-year programme.

Charlie Pate: Yes, we have 100,000 SLA bed spaces. Half of those have been built in the last 20 years, but there are issues, particularly with the older bed spaces. There are nearly 50,000 SFA properties, so it does take time to work through those.

- Q57 **Sir Geoffrey Clifton-Brown:** Surely it comes back to the questions I was asking earlier. If you got rid of all these empty properties quicker, you wouldn't have the maintenance problem. You might also get a little bit of capital receipt from them and then you'd have more money to put into the system to bring up these SLA properties that are below standard and do the thing quicker than 10 years. If a private landlord was proposing 10 years to remedy some of these properties, they would be heavily criticised. Ten years is too long.

Charlie Pate: I should say, we are not able to set out the timeframe yet on SLA because we haven't yet assessed the estate against the minimum



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standards. Once we have that, we will have an understanding of how many properties we would need to upgrade and therefore what timeframe this may take.

- Q58 **Sir Geoffrey Clifton-Brown:** Okay, I have heard the point. What sort of timescale are we looking at? When will you be able to tell us what sort of timetable you will be able to do, and how many and when?

Charlie Pate: On the SLA, the surveying will be happening over the next two years, with work programmes starting in 2023-24 on the worst properties against those standards. In the meantime, significant investment—in the hundreds of millions—is going into SLA every year, including in the hot water.

- Q59 **Sir Geoffrey Clifton-Brown:** The clever thing to do would be to remedy some of the properties on each estate so that you at least had some emergency properties, so that where a property went really wrong, there would be a prospect of relocating somebody in a really bad property into a property that had been renovated. Is that part of your thinking?

Charlie Pate: We certainly do that on SFA, as I said, around the damp and mould. We will move people out immediately if that is what is required to fix the property. On SLA, we accept there is a much broader range of standards of property and we charge different levels of rent according to that range. We know that some people go for the cheaper properties.

Sir Geoffrey Clifton-Brown: Related to that is the number of armed services men, but I don't know whether we want to go into that—

Chair: I think Mr Smith wants to come in now.

Nick Smith: To pursue the issue of SLA—

Chair: I should have said this earlier, but let's call it what it is—single living accommodation.

- Q60 **Nick Smith:** Yes, single living accommodation; thank you, Chair. Mr Pate, you explained that you have 100,000 or so of these properties, that there are 50,000 that are in poor shape that you are going to spend two years surveying, and that then you will decide exactly what changes need to be made. When will this half of the single living accommodation that is currently in poor condition be in good condition?

Charlie Pate: Apologies if I misled the Committee, but I wasn't saying that half of the accommodation was in bad condition; I was saying that half of it has been built in the last 20 years, so you might assume that is better. Half of it is older than that and may have more issues. You need to do the surveying to understand the full state of our SLA against the new minimum standards that we have agreed. I can't give any more timescales than those that I have given to the Committee.

David Williams: The only thing I would add is—

- Q61 **Nick Smith:** Sorry to interrupt, but why will it take two years to do these



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surveys?

Charlie Pate: Well, it will be about a year and a half once the standards are agreed, but it is a significant estate that we need to get around.

Q62 **Nick Smith:** It is spread around the country, isn't it?

Charlie Pate: Yes.

Q63 **Nick Smith:** Could you decentralise the surveying and get people locally to look at the state of the accommodation?

Charlie Pate: I am afraid I don't know the detail of how we are going to do the surveying, so maybe we can write to you about that.

Q64 **Nick Smith:** Yes, please could you do that? So many families and so many servicepeople are being let down with poor accommodation at the moment. At our last session, we talked about the importance of wi-fi being available. In your future plans, will wi-fi be available for our personnel to use?

Charlie Pate: Yes, and indeed the Army brought forward some investment that they had planned for later years into last year, as we had an underspend. I can't remember the exact amount, but significant investment went into their estate, and that is carrying on.

David Williams: If I may come in, the point I was going to make builds on that. This is not an area where you want to spend several years coming up with the perfect programme that answers all your questions. There are opportunities to improve the condition of our single living and service family accommodations now, and each year, and as we see problems that need to be addressed, and as money is available in-year, it is possible to make quick improvements in certain sites across all three services. That is how I would characterise the formal programme, alongside the opportunity to accelerate spend where it is most needed and when the opportunity is there. It is the combination of those two.

Q65 **Nick Smith:** I am pleased to hear this is a dynamic process, and that you are going to deal with simple problems first and bring accommodation up to spec—that's terrific. However, my sense is that you still don't really know the nature of the problem. While there are great words about dealing with problems now and sorting things out sooner rather than later, I still get the sense that you don't really know what the nature of the issues are.

Charlie Pate: I think the only bit that I can add is that this is around having specific standards for SLA that we have not had before; we want to assess each room against a common standard across the defence estate. As the Permanent Secretary has said, we have been investing for several years and we have plans to invest well over £1.5 billion over the next 10 years. The frontline commands are doing that as we speak and continuing to choose and adapt where they put the money.

Q66 **James Wild:** When the future defence infrastructure service contracts went live in April, it was said that they included targets for customer



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satisfaction levels. What are those targets, and are they publicly available? I have not been able to track them down.

David Williams: I do not know. I have standards in terms of response times, and for 85% of faults to be fixed on first visit and so on. I do not know if there are customer satisfaction targets, so let me check that.

I would characterise the new contracts in part as placing greater emphasis on the client being the occupant rather than the landlord, which I think, in this context, is helpful. I would be pretty surprised if we were not monitoring customer satisfaction; what I do not know is how that links to the contract.

Q67 **James Wild:** There is no reason why that should not be available, is there? Cabinet Office advice is for KPIs in big contracts to be public, and for them to be tracked and reported on.

David Williams: I cannot immediately think of any particular reason why that would be a problem.

James Wild: Good; that is encouraging. If you think of one—

David Williams: Sir Geoffrey talked about the annual survey, but we also do monthly temperature checking against 11 questions specifically on accommodation for our service personnel. In looking at that in preparation for this hearing, it occurred to me that we might routinely share some of that information with you.

Q68 **James Wild:** The announcement also said that those customer satisfaction targets would affect the profit that the suppliers can make. How much profit is in the mix, and what is their incentive?

David Williams: You have exhausted my knowledge of the contract, I'm afraid. Charlie?

Charlie Pate: I'm afraid that I do not know the details of the contract, but that is absolutely right: after the six-month bed-in period, their profit is at risk if customer satisfaction levels and the agreed targets for work are not met. All those have been agreed with the Service Family Federations, which said they will be happy with the approach if we met those targets.

We have definitely written out to commanders on all the different improvements that the contracts make. I would expect that we will continue to update commanders on how we are doing.

David Williams: Let us go for 17% to 20% of profit linked to customer satisfaction, depending on the contract.

Q69 **James Wild:** Thank you very much. Can you confirm that the review of the optimisation programme will include the training estate and the overseas estate, as well as the physical estate?

David Williams: Actually, I do not know what the scope is. I think the overseas estate may be out of scope. Its principal focus is on built estate



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rather than rural training, but I will let you know what we are doing about those other two pieces.

- Q70 **Chair:** Comparing notes with my opposite number—or a previous Committee Chair—in the Falkland Islands, Mount Pleasant’s costs have gone up quite dramatically in recent years. It is not that we would not want to defend the Falkland Islands, but there is a slight suspicion that I need to pursue with you on whether there is a loading of some of our overseas bases because they would hard to cut. Have you looked into that at all and done a comparison?

James Wild: Is there a lot of modernisation in the Falklands?

David Williams: Not specifically that issue.

Chair: Another airport is being built—with the wrong wind, but that’s another issue.

David Williams: I can imagine that the logistical challenges in major infrastructure projects in the Falklands would have a price impact.

Chair: I will perhaps pursue that with you separately on this, the 40th anniversary of the Falklands conflict. Over to you, Sir Geoffrey.

- Q71 **Sir Geoffrey Clifton-Brown:** I may come back to housing in a minute—voids in particular—when we have decided what the armed forces numbers are. The Integrated Review announced that the Army’s target strength would be reduced from 82,000 to 72,500. You kindly confirmed those figures in your note to us. Do they remain valid, even as a result of the lessons you have learned from Ukraine?

David Williams: To be precise, the 72,500 figure has changed to 73,000. It was 72,500 for core Army, and then a share of military manpower in the new national cyber-force, so 73,000 is the overall target. If I think back to the conversation with Mr Smith, I imagine that the size of the Army will be one of those assumptions where we took a risk-based approach during the IR that Ministers will wish to revisit as part of our Russia-Ukraine lessons learned. Quite apart from the size of the Army, we will certainly be interested in how we can make the Army more deployable and effective in the field. It has been a strong testament to them that around 10,000 service personnel have been fielded to support NATO and other activity on the eastern flank. Making the Army more deployable is as interesting as the overall size of the Army, but I think we will look at that number again.

- Q72 **Sir Geoffrey Clifton-Brown:** And the other TLBs will need to make savings equivalent to reducing their trained military workforce by 6,350 and their untrained workforce by 1,450 by 2030. Are those numbers still valid?

David Williams: We have not changed any of the uniform numbers at this stage.

- Q73 **Sir Geoffrey Clifton-Brown:** In addition to that and the Prime Minister’s recent announcement, your Department will need to make a further 10%



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reduction to the cost of the civilian workforce by 2024-25. Is that in addition to these numbers?

David Williams: The 10% reduction is a reduction in the civil service equivalent pay bill, which was part of the Integrated Review and Spending Review agreement from two years ago.

On the recent announcement, in common with all other Government Departments we are identifying how we might reduce our civil service headcount by between 20% and 40% to contribute to the Government's ambition to return the overall size of the civil service to 2016 levels. To the extent that we have plans in place that already reduce our civilian headcount, they would count towards that exercise. The latest exercise is baselined on civil service headcount as at the end of March this year. We need to respond to that request over the course of the next few weeks and we are currently working through it.

In civilian headcount terms, the Department itself has grown by about 7.5% since 2016, mainly in nuclear and infrastructure, as it happens, so we will need to think not only about those areas where we might be able to reduce civil service headcount but those areas where we want to continue to grow.

Q74 Sir Geoffrey Clifton-Brown: Those numbers sound incredibly challenging to me. You obviously have to reply to what a sensible reduction is, but given that you have only grown 7.5% since 2016, 20% to 40% sounds incredibly challenging.

David Williams: The MoD is a large employer of civil servants. The baseline number for us is around 55,000, so those scenarios are between 11,000 and 22,000 reductions. It is hard to see how you could go much beyond the bottom of that range without needing to make some quite difficult choices about what we are going to stop doing.

On the other hand—we have discussed this as much in the equipment programme as elsewhere—we do have ambitions to streamline our governance and our processes and to make sure that our approvals are supporting the kind of pace of investment that we need to deliver the Integrated Review, so there should be some opportunity for us to think through a leaner Department that can actually deliver on our aspirations better. But look, we are working back through now. Delivery on the previous target of pay bill reduction of around 10% would probably get us back to where we were in about 2016. Beyond that, we are going to have to think about things that we can either do more efficiently or reprioritise.

Q75 Sir Geoffrey Clifton-Brown: I am still not quite clear. You already had a 10% reduction in the pay bill baked in before the Prime Minister made his announcements, and you are now being asked to make a 20% to 40% reduction. Are the two things completely separate, or does the 20% to 40% take into account the 10% reduction that was previously baked in?

David Williams: The baseline for the 20% to 40%—I should say at this point that these are only illustrative and no decisions have been made on



the particular target for any individual Department—is based on how many people we employed at the end of March this year. Where we have plans to meet that 10% target which involve future headcount reduction, we can score that 10% contribution towards the 20% to 40%. The challenge is that because that is a pay bill reduction, some of the way in which we are meeting it is through changing the boundaries between permanent staff and contractors or through uniformed and civilian staff. Our plans for the 10% actually see us growing slightly over the next two years before we then come down as transformation, modernisation and automation approaches kick in. By the end of the Parliament, I think that 10% measure contributes, but our immediate trajectory on the civilian headcount in the Department is up, not down.

- Q76 Sir Geoffrey Clifton-Brown:** I know that Mr Grant wants to come in on this subject, but I have one further question. We already know from previous hearings that you are short of certain skills—IT programmers, certain procurement skills, solicitors and so on—and that you will need to recruit more people to fill those requirements. How will that interact with these targets?

David Williams: The target we are being asked to illustrate at 20% to 40% needs to be net of recruitment, which is one reason why the exercise for the Department is not simply, “How would you come down by 20%?” It allows there to be some choice across Government for differential targets. Partly what I mean about there being some opportunity in this exercise is that it gives us an inducement, if we needed it, to look hard at those areas where we can reduce civilian headcount in order to ensure that we can invest in those areas where we need to grow—either in number or in skills.

Part of a potential package here—without giving you any sense of what a number might be—is that if we are going to manage with fewer civil servants, we are going to need more freedoms and flexibilities to ensure that we can recruit and retain the right people. Indeed, when talking about streamlining our approvals processes and our bureaucracy to help to reduce the number of people we need, it is not only our bureaucracy but how we engage with the rest of Government. I am trying to avoid looking at the Treasury Officer of Accounts at this point.

Chair: You have made your pitch, Mr Williams.

- Q77 Sir Geoffrey Clifton-Brown:** Does that target inevitably mean you would be employing more contractors and outside advisers?

David Williams: The way the exercise has been framed is that we should not simply displace people into more expensive manpower. That will be outwith the guidance of the exercise. I think we may want to look at the boundaries of the Department and whether there are some things we could do differently or whether some of our civil servants might be classified differently. As you might expect, there is an interest both in the overall number of employees and also in how much they cost.



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I should say that we are at the phase where we are being asked to illustrate the impact. I do not know what the target for the Department will be—

Chair: You have the same script as all your fellow permanent secretaries.

David Williams: Our growth is rather less than 20% since 2016.

Accepting that time is tight, it would be remiss of me not to say that, notwithstanding this exercise, civilians in defence contribute greatly to the outputs of the armed forces and support the Government's delivery of its programmes. It is often the nature of these particular hearings that we focus on the things we need to do better, but we get a great deal out of civil servants across defence in very many skills and specialisms, and I should put that on the record.

Chair: You have put that on the record very firmly. Every permanent secretary has done a similar thing at the Committee, but—

David Williams: I would expect nothing less.

Chair: It is a fair point.

- Q78 **Peter Grant:** As well as the reduction in the civilian staff, we are looking at the significant reduction in the size of the armed forces, particularly the Army. How can you be sure that the reduction in civilian staff does not just become a tick-box exercise—you get rid of civilian civil servants and replace them with uniformed Army personnel or other military personnel?

David Williams: Normally speaking, military personnel cost more than civilians. In an exercise in which the Treasury is deeply interested in the response, substituting civil servants for more expensive military personnel is not good value for money and not particularly something we are thinking about. Indeed, part of our challenge is that we have spent a number of years substituting civilians for more expensive military personnel.

To join up some of the themes, if we concluded, in the light of our re-examination of the assumptions we made in the IR linked to Russia and Ukraine, that we thought the size of the armed forces should not be as small as we have currently set out, we do not particularly want them to be larger, but with extra people doing jobs that civil servants can do; we want them to be larger, doing jobs that only people in uniform can do. There is no incentive within the Department simply to switch one to the other.

- Q79 **Peter Grant:** You understand the concern that some of us will have, given that the announcement of the reduction in the number of civil servants was headlined by how there could then be a political imperative to announce that there had been that size of reduction in civil servants, while hoping that no one would ask how they had been replaced. Even if you, I and the Committee know that it is not a good value-for-money



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solution, is there not still a danger that at some point there is political pressure to declare a reduction in civil servant numbers, even if they are being replaced by other people who are more expensive?

David Williams: Part of the process that central Government want to go through over the coming months, in discussion with individual Departments, is finding the right balance between headcount reduction, pay bill reduction and what the value-for-money approaches might be. If in Departments there are sensible proposals to outsource or reclassify that represent value for money, that seems perfectly reasonable to look at; if they are simply doing that to give a headline number, but it is poor value for money, a number of permanent secretaries, as accounting officers, will have some difficulty, I think.

The target is about the size of the civil service in 2016. The way in which we and a number of other Departments are approaching that is to think positively about what a smaller, higher-performing and really professional civil service in 2025 will look like, making as much of a virtue of the exercise as we can. Again, that does not just get us into tick-box headcount reduction for the sake of it.

Q80 Peter Grant: Earlier this year, when the NAO reported on your progress towards the 10% pay bill reduction, at that point you were confident that you could achieve it without large-scale redundancies. Would you be confident about achieving a 20% or possibly 40% reduction without large-scale redundancies?

David Williams: Generally, looking at churn, about 20% of the workforce will probably look to leave over the course of the next two to three years anyway, so at a 20% level, I think we could manage it without widespread early-release programmes, although we might have some mismatch between the people who want to go and the people and skills we want to keep, so we might need some access to targeted approaches. Indeed, we have had some access to targeted redundancy schemes as a result of the Integrated Review, but we have not really needed to use much of that. In broad handfuls, I would say that 20% I think you can manage through churn, 30% you probably need voluntary early release, and 40% you probably need more.

Q81 Sir Geoffrey Clifton-Brown: Finally, we come to the recruiting partnering project managed by Capita. At the same time as we are trying to reduce numbers in the armed forces, you have renewed Capita's troubled programme to 2024. What was the justification for doing that?

David Williams: It was historically troubled, but performance on the contract by Capita and, indeed, the whole of the Army recruiting system since the commercial reset in 2018 has been pretty good. For the last year, they have hit 100% of their regular officer requirement and 98% of their regular soldier requirement. Reserve performance is a bit lower—in the sort of 70% to 80% mark. The contract is actually performing well.

Part of the reason for extension—though, first, two single-year extensions were envisaged at the time the contract was let—was really about how we



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run an appropriate commercial process for the replacement to that contract. It seems to us to be quite a sensible use of our commercial flexibilities to make the most of a contract that is now performing—after many years of being more of a problem child—while we ensure we get the follow-on arrangements right.

- Q82 Sir Geoffrey Clifton-Brown:** Given that you want to reduce the total number of the Army from 82,000 to 73,000, is it still the case that you need to recruit between 18,000 and 22,000 for the UK and Commonwealth armed forces recruiting programme? Do you need to keep recruiting that number of people?

David Williams: Broadly. There will be some adjustment but, as you know, all three of the armed forces are essentially bottom-fed organisations, rather than bringing people in at higher points in the hierarchy. There may be a bit of balance, particularly around the Army, on the current numbers between regular and reserves, but the programme is used for recruiting reserves as well.

In coming down to 73,000, or, indeed, where other services have headcount numbers to hit, there is a very high and perfectly rational degree of enthusiasm for maintaining healthy recruitment rates—it is really about how you manage exits. Some of the challenge there, under covid, has been that exit rates have been historically very low, given the uncertainty in the economy. We are now seeing those numbers tick back up to at least more normal, historical levels. The balance between outflow, inflow and progression is a service personnel dark art, but you do want to keep people coming in.

- Q83 Sir Geoffrey Clifton-Brown:** I want to shine a little bit of light on that. Having suspended the armed forces recruiting programme in July '21, what assurance can you give us that you will have an operational tri-service recruitment system in place by 2024?

David Williams: As, I think, the Minister for Defence Personnel and Veterans set out to Mr Francois in a written parliamentary answer, we are looking to have contract award for March 2024—

- Q84 Sir Geoffrey Clifton-Brown:** Sorry to stop you. Will that be retendered, rather than just renewed?

David Williams: We are in the middle of a competitive process now with four consortia: Capita, Randstad, Serco and SSCL. The intention is to run that process for a contract award by March '24, with transitional service delivery and full service under the new contractual arrangements by 2025. Part of that transition is to learn lessons from our experience of how the Capita contract worked in its early days—if you stop one and start another, you're in trouble. We are currently negotiating a further extension of up to one year with Capita to cover that 12-month period from contract let through to full service delivery. That was set out by the Minister in mid-April in a written answer.

- Q85 Sir Geoffrey Clifton-Brown:** Given that in the 12 months to September



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'21, you were seeing a decrease of 17.7% applying to join the Army, how confident are you that you can recruit the skills that you need?

David Williams: On Army recruitment, at the moment, I have to say not very confident, but that is less because of the performance of the contract. As the Committee will know, we had a cyber-challenge, which I am happy to explain in better detail than I managed at one of your sister Committees. That challenge meant that the online recruiting system has been offline for a period of around two months. It is now back up and running, but there will be a consequence to Army recruitment this year of that system being basically unavailable for a couple of months.

Q86 **Sir Geoffrey Clifton-Brown:** Was it just unavailable or was it hacked?

David Williams: There is no evidence that the system itself was compromised. The explanation we think is the case is that individual log-in details from potential recruits will have been phished or skimmed from their phones. If you had been a recruit, Sir Geoffrey, they could log in and see your details, but if Dame Meg were a recruit, they would not be able to see hers unless they had got her log-in details from her phone.

Sir Geoffrey Clifton-Brown: If the Army has to recruit people my age, it's in real trouble.

David Williams: I won't comment on that. The system is back up and running. There are greater protections in place around the anonymisation of data. If I log into my bank, I can see the first four numbers and the last four numbers of my bank card, but I don't know what the ones in the middle are. We have introduced some of that for personal data that is visible in the system as well as greater authentication to establish that it is indeed the recruit that is logging in, rather than someone that has got some of their details.

Q87 **Sir Geoffrey Clifton-Brown:** Linking two elements together—personnel and housing—given this reduction in the numbers of the Army, have you factored that into the number of voids you have got? Have you considered whether the void reduction figure is realistic or whether it could be a little bit higher, given that you are reducing the Army by quite substantial numbers?

David Williams: The estate footprint that flows from Future Soldier and the changes to the size of the Army was set out in November last year. I am not sure how far we have factored it into our void calculation, since we are not yet at the point of hitting the 10%. Does that mean we can hold fewer voids? Possibly. Quite a lot of the voids—maybe two thirds—are Annington properties, so not all of them are necessarily conducive to early hand-back. I will look at that question.

Q88 **Chair:** On the recruitment issue, though, a few months of not being able to easily access the system is one thing, but with everyone seeing a challenge in recruitment, particularly at this entry level, it is the general situation in the workforce that is causing problems as well?



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David Williams: I suspect that across Government the number of adverts has gone up quite markedly since the instruction that we should be reducing our head count. People are quite keen to get those key skills in quickly. People will be looking at both the role of the military and what else is available in the economy.

Q89 **Chair:** So you have not done any analysis at this point that you are aware of?

David Williams: Not that I at my fingertips.

Q90 **Chair:** It is just that there has been a reduction by a fifth in the 12 months up to September 2021 from 2020. Obviously, covid potentially had an impact. There was a 30% reduction in the volunteer reserves, and they are a pretty critical group for some of the special skill sets you need.

David Williams: Indeed, they are. What I can say is that our assessment of the disruption from the two-month gap in the online recruiting presence is that it will probably take us 12 to 18 months to recover that hit. It can be quite volatile.

Charlie Pate: On the regular slider, we definitely toned down the requirement from Capita as a result of the Integrated Review. The requirement was lower last year and will continue to be.

Chair: There is lots to dig through there. I call Nick Smith.

Q91 **Nick Smith:** I want to return to the issue of lessons from Ukraine, as referred to in our last session. I also want to link it to General Sanders' comments from the weekend.

At 73,000, this is our smallest Army in 300 years. General Sanders, I think expressing real concern, said, "There is now a burning imperative to forge an Army capable of fighting alongside our allies and defeating Russia in battle". That is very serious commentary from him.

Earlier on, you said that you needed time to gain some perspective, and we accept that—you have a lot to review. However, will there be results available on any review into the size of the Army by, say, the autumn? Is that enough time for you to come back with a proper response to General Sanders' cri de coeur?

David Williams: First, I should say that I recognise and have no difficulty at all with any of Sir Patrick's remarks. They are entirely consistent with both the focus on Russia as a threat and the important role that we play in NATO. We must look at the size of the Army, alongside both that threat and our ability to deliver on the wider modernisation of the Army's capabilities and its equipment programme. I suspect that there will be an interest in taking a view in that kind of timeline, but we do not have a firm timetable set out and I cannot sensibly commit to one today.

Q92 **Nick Smith:** That sort of does feel like a "yes".

David Williams: Well, I do not think that I said yes but, look, we will want to look at it quite early. I think the question is on what evidence he



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wants to support that judgment. On the one hand, clearly, there is a predominantly ground-based campaign taking place in Ukraine. On the other hand, if you are thinking through the lens of the threat posed to the west by Russian military capabilities, it is their land capability that has been most degraded by the activity they have undertaken since they invaded Ukraine four months ago. There is just a range of factors for us to think through.

Nick Smith: I get that. Thank you.

Chair: I thank colleagues and witnesses very much indeed for your time. We are considering whether we will produce a Report or just write to you on this, because, as I said at the beginning, it is a bit of a smorgasbord of issues that we look at regularly. It may save us some Treasury minutes and some to-ing and fro-ing. However, we will obviously return to a number of these issues in separate Reports, thanks to the support from the National Audit Office. The transcript of this session will be put on the website, uncorrected, in the next couple of days. Thank you again for your time.