



Defence Committee

Oral evidence: MOD Annual Report and Accounts 2022-23, HC 54

Tuesday 12 December 2023

Ordered by the House of Commons to be published on 12 December 2023.

[Watch the meeting](#)

Members present: John Spellar (Chair); Martin Docherty-Hughes; Richard Drax; Mr Kevan Jones; Mrs Emma Lewell-Buck; Jesse Norman; Gavin Robinson; Derek Twigg.

Questions 1 - 139

Witnesses

I: David Williams, Permanent Secretary, Ministry of Defence; Tom Wipperman, Strategic Finance Director, Ministry of Defence; Lieutenant General Rob Magowan CB CBE, Deputy Chief of the Defence Staff (Financial and Military Capability), Ministry of Defence; and Adrian Baguley, Director General Strategic Enablers and Deputy CEO at Defence Equipment & Support, Ministry of Defence.

In the absence of the Chair, John Spellar took the Chair.



Examination of witnesses

Witnesses: David Williams, Tom Wipperman, Lieutenant General Magowan and Adrian Baguley.

Q1 **Chair:** Welcome to the Permanent Secretary and others. Could your team introduce themselves, David?

David Williams: Thank you, Chair. I am David Williams, the permanent secretary at the Ministry of Defence.

Lieutenant General Magowan: I am Rob Magowan. I am a lieutenant general. I am the Deputy Chief of the Defence Staff for military capability.

Adrian Baguley: I am Adrian Baguley. I work in our equipment acquisition and supports organisation in Bristol. I am Director General for Strategic Enablers and the Deputy Chief Executive.

Tom Wipperman: I am Tom Wipperman. I am the strategic finance director at the Ministry of Defence.

Chair: Thank you very much. We will kick off with Emma Lewell-Buck.

Q2 **Mrs Lewell-Buck:** Good morning, everyone. This question is for you, David. The latest NATO figures for the UK's defence spending as a percentage of GDP are 2.16% for 2022 and 2.07% for 2023. Do you agree with those figures and, if not, can you explain the difference?

David Williams: Let me start and if you want more detail, Mr Wipperman may come in. The NATO figures are based on returns from the UK. They are based on returns that are now a little dated, so they reflect forecast expenditure and, in particular, do not include the costs of our support to Ukraine last year and this year. We will be updating our return to NATO in the first couple of months of 2024. As things currently stand, our expectation is that our level of spend against GDP this year, and next, is around 2.25%. That is slightly lower than the figure that the Defence Secretary gave when he was before the Committee a few weeks ago because of the way in which GDP has been revised upwards through the autumn statement.

Mrs Lewell-Buck: Thank you. You have answered my next question, so I am happy to move on, Chair.

Q3 **Chair:** We are clear that both the NATO figures and ours will include any expenditure in Ukraine.

David Williams: Yes. As a matter of routine, spend against the NATO standard includes operational spend, so it will include the £2.3 billion that we have spent over the last few years.

Q4 **Chair:** In terms of rebuilding Britain's defence capability, we are likely to be below 2%.



HOUSE OF COMMONS

David Williams: No. The numbers are over 2% without Ukraine numbers in the percentage. We are meeting the threshold target of a minimum of 2% spending through defence as part of our membership and leadership of NATO. As you know, the Government have a commitment to spending increasing to 2.5% of GDP as fiscal and economic conditions allow.

Q5 **Mr Jones:** David, that is a one-off expenditure for one year in the commitment to Ukraine. You said it is over 2% for when you get the revised figures in. If you strip out that figure for Ukraine, what is it?

David Williams: I might just ask Mr Wipperman on that one.

Tom Wipperman: If you take it out, it would be about 2.17% on our current forecasts for the next two years.

Q6 **Mr Jones:** That is without any further commitment. If, in a year's time, we have another donation, for example to Ukraine, that will get added to that figure as well.

Tom Wipperman: Yes, we would expect so.

Q7 **Mr Jones:** How do you actually calculate your donations to Ukraine? Clearly, with things like ammunition, there is a cost to it. The Army is basically getting rid of a lot of its old kit to Ukraine, isn't it? Who values that kit in terms of the overall figure? I notice this week that you are giving them Viking. I remember Viking from my days in the MOD in Afghanistan. It wasn't a wonderful piece of kit, was it? No doubt it has been in storage for a while now, and you want to get rid of it. Who puts a value on that?

Tom Wipperman: Equipment that we are holding in our own stocks sits on the balance sheet as a valuation. At the point when we transfer it to Ukraine as granted in kind, it does not hit our budgetary treatment. It has an effect on balance sheet but not on our budgetary treatment because there still remains an economic value, reflected in its valuation on the balance sheet. When we transfer it over, the budget hit does not come out of that £2.3 billion. Where we would see a cost arise is where we are funding replacements for things that we have granted in kind.

David Williams: As I said to the Committee previously, our equipment support for Ukraine falls under three broad headings. It is gifting of equipment in our existing inventory, which does not score against the £2.3 billion.

Q8 **Mr Jones:** It doesn't?

David Williams: No. Then there is buying new equipment from industry and buying existing equipment from other partners. Both the second and third categories score against the £2.3 billion, alongside the costs of the training missions. There is the Interflex training of Ukrainian soldiers in the UK as well as enhanced NATO activity in eastern Europe.



Q9 **Mr Jones:** So that stuff is out of inventory and doesn't count, but you obviously make savings because you are not storing it and there are no ongoing maintenance costs of that equipment that you would have in your inventory anyway.

David Williams: In some cases. In other cases, we may have been expecting to get some sort of disposal receipt. It will vary on a case-by-case basis.

Mr Jones: Thank you.

Chair: We will move on to the equipment plan.

Q10 **Martin Docherty-Hughes:** Good morning, everyone. First, I want to go to why there might have been significant forecast cost increases in the equipment plan this year, including a nearly two-thirds—62%—increase in the Defence Nuclear Organisation and 41% in the Royal Navy.

David Williams: As you will see, the National Audit Office has put out its report on the equipment plan. I should say up front—I wrote to the Public Accounts Committee and this Committee over the summer—that the Department has not published its usual equipment plan summary this year because the work remains very much work in progress as we track through both the impacts of inflation and changes to our future capability requirements to reflect the refresh of the integrated review and the defence command plan.

The principal drivers of cost growth—other colleagues may want to come in on some of the detail—have been substantial new investment in the nuclear enterprise, in support of the deterrent, and quite a lot of investment in enabling infrastructure related to manufacture, support and basing of the boats, as well as investment in infrastructure projects at the Atomic Weapons Establishment. Some of that is related to the deterrent. Some of it is related to our conventionally armed nuclear powered attack submarine fleet, including early commitments and expectations of spend on the new generation of submarines that we are developing in partnership with our American and Australian colleagues under AUKUS.

That is a large proportion of the increase. Aspects of the Royal Navy's increase are related to their share of the armed forces nuclear programme, as well as their costing into their forward plans the shipbuilding pipeline for the second half of the decade, on which formal commitment decisions are still to be made. As I set out, and as the National Audit Office set out, we are dealing with the net increase and the net pressure of just under £17 billion, with inflationary effect of around 10.9% and foreign currency losses or pressures of just over £2 billion. Those three areas are the principal drivers of the increase in the plan this year.

Q11 **Martin Docherty-Hughes:** And will that be clearer if, and when, you publish the summary response, especially around dollar-dominated issues, for example, and inflation?



David Williams: We do not plan to publish a summary of the equipment plan that concluded in March/April this year. You have a copy of my letter and some affordability tables that we provided. We have engaged fully with the National Audit Office on their publication. I expect us next to publish a summary once we have been through the next planning round, and possibly the next spending review, and we have a plan that properly reflects the Government's ambition for defence and the resources that we have allocated towards it.

Q12 **Martin Docherty-Hughes:** Whether one agrees or disagrees with the nuclear deterrent, there is an opportunity to reflect that if we separate that budget from the rest of the Ministry's budget, we get clarity on what is being delivered to conventional forces. Forgive me while I get my figures. We have seen that costs to support the nuclear deterrent exceeded the budget by £7.9 billion, but the budget for conventional equipment is £9 billion less than forecast costs. Do those figures ring a bell?

David Williams: Yes. That is the component of the split of the £16.9 billion pressure overall. It is split between nuclear and non-nuclear in the proportion that you set out. For transparency, let me say two things and then see if Mr Wipperman wants to add some detail.

First, on how we are managing the programme internally, this year we are working through this. We have agreed a ring-fenced nuclear budget with the Treasury to encompass the totality of the defence nuclear enterprise. Primarily, it is the Nuclear Defence Organisation but there are aspects of the Royal Navy programme and the Strategic Command programme as well. That is a ring-fence into which we can transfer money, but we cannot transfer money out. It gives us a clearer focus in our internal planning on the costs of the nuclear enterprise. Critically for us, it unlocks a degree of freedom about the ability to vary more money between programmes and across years, allowing us to deal with some of the challenges of annuality that we have discussed at length in this Committee.

The intention is for supplementary estimates and then the supply process thereafter. With supplementary estimates in the first part of 2024, we will split out and identify the nuclear ring-fence on the face of the estimates, which comes to Parliament for approval, so there will be greater transparency of the proportion of the budget going in that direction.

Q13 **Martin Docherty-Hughes:** Does anyone else want to comment? I think there is a genuine concern—whether one agrees or, like me, disagrees with the deterrent—that the opportunity for transparency would be better enhanced if there was a completely separate silo for the Defence Nuclear Organisation.

David Williams: On how the vote will work for the defence nuclear enterprise costs within the Department, you will see that separately from next year.



Q14 **Martin Docherty-Hughes:** But if it is outwith the Department—if, for example, another Department has an overview of it—at least for some Members, that would be a far more transparent process. It is not just about the MOD view of it.

David Williams: The challenge then, though, which the NAO report touches on, is that the operation of the deterrent is not an easily separable thing. Although the ring-fence is primarily around our investment in new capabilities, the maintenance support of the warhead, the substantial costs of crewing the nuclear submarines and training the crews for those missions—those kinds of aspects—as well as broader support to the deterrent in terms of anti-submarine warfare or P-8 patrol aircraft, sit within the services and within the departmental budget. Managing a hard interface with a different Department would, in my view, bring more downsides than upsides. I think we will get the transparency that you are looking for on the face of the estimates through the supply process and in the way in which we present and plan our own numbers. Future equipment plan documents would, I expect, break out, as the NAO report has, what we are planning to spend, and the budget for nuclear, as well as plans and budget for conventional forces.

Q15 **Mr Jones:** The NAO report that you have just referred to says that the RAF and Navy have unaffordable plans. It also says that the Army and the Strategic Programmes directorate “have affordable plans by accepting greater risks”. Isn’t it clear that the ability of the commands to manage their own budgets has been a failure? Certainly, in terms of the Levene review, it has been a failure in allowing, as I think I said at the time, the children to be in charge of the sweet shop.

David Williams: Let me start. On the success or otherwise of the Levene review, as we have discussed at the Committee, we are currently in the middle of a fundamental review of our operating model through our defence design work, in conjunction with acquisition reform work that Defence Equipment and Support colleagues are taking forward. Looking at how we do capability planning and set requirements, how budgets flow and where authority and responsibility sit to delivery is all part of that work.

My principal takeaway from that plan and the kind of financial challenges that we face there and in the non-equipment elements of our programme over the next few years are that it is primarily driven by the impact of inflation, as well as taking lessons from Ukraine and thinking about the pace of technological change, rather than fundamentally losing control of the process or the content of the programme. There is lots of engagement between the frontline commands and the teams that General Rob and Mr Wipperman lead. You might want to talk briefly about that kind of engagement and some of the variation in approach.

Tom Wipperman: As you can imagine, we engage with them regularly, both in year and through the planning process. We set them clear parameters about how to report their forecast costs back to us and the



programmes they are undertaking. We then work with them to test the sensitivity of that, the judgments that they are making and the misjudgments that they are making. We take a view, with our capability colleagues, about relative prioritisation across the plans. That is an ongoing dialogue, both in year on a monthly basis and then through the planning process. We do that quarterly.

Q16 Mr Jones: Surely the real problem is that you have tried to get them to make decisions. The only way this budget is going to be sorted out is by taking equipment out or saying, "We're not going to do X, Y and Z." You are never going to do that when you have the commands in charge of it, are you?

Lieutenant General Magowan: We give the commands operational tasks. With their delegated budget, they determine how they go after those tasks, but all the time they are managing operational risk. In some areas they are going to have to take some operational risk. In other areas they are going to double down and learn lessons from operations today.

Q17 Mr Jones: But have you done a deep dive into their budgets in terms of what is going on day to day?

Tom Wipperman: We do that regularly. We do that every quarter with the TLB holders, the heads of the armed forces and—

Q18 Mr Jones: It is not just this organisation. In any organisations I have been involved with, if you devolve budgets there are always creative ways of—how can I put it—hiding money or keeping pet projects going. I remember that when I chaired the value for money group in the Department, I sent the team down to Land and they came back with £25 million sitting around doing nothing. How confident are you that there isn't money squirrelled away on various programmes?

Tom Wipperman: General Magowan may wish to comment, but we agree with them what they deliver.

Q19 Mr Jones: Do you believe them, though?

Lieutenant General Magowan: It is not a wholly delegated budget, as you know. We spend most of our time at the investment appraisals committee approving it before it goes to Ministers and across to the Treasury on cat A programmes and GMPP and DMPP programmes.¹

It is not right to say that they get a delegated budget, and we never look at them again. We look at them regularly. It is a very dynamic situation. The major programmes are formally coming into head office on a regular basis, and a frequent basis.

¹ Correction: The Defence Major Programmes Portfolio (DMPP) currently monitors the top 58 strategically important programmes in Defence. Of these, 51 meet the criteria for monitoring under the Government Major Projects Portfolio (GMPP).



Q20 **Mr Jones:** What about their operating costs? Do you look at that as well?

Lieutenant General Magowan: It is all part of the conversation we are having. Absolutely.

Q21 **Mr Jones:** Personally, I think it was the biggest mistake. Although I accept what you are saying, I think we need strong control from the centre. The impetus to make savings is never there if you have delegated budgets.

Lieutenant General Magowan: What we are doing—more of this will come out through the acquisition reform that the permanent secretary mentioned—is trying to take a capability portfolio approach or a thematic approach. Rather than talking about a platform, we are talking about an operational effect, like electronic warfare. We are therefore taking a budgetary approach to that across the TLBs. We are not there yet, but that is the sort of thing we are looking at. It will drive greater operational focus but also efficiency in what you are getting, a closer interface with industry and a much stronger message to industry on what we need. That is what we are developing right now. We have already started.

Q22 **Mr Jones:** Are you asking questions, for example, like how they are running the administration of day-to-day budgets? It is very interesting. The team I sent down there found £25 million easily out of the budget in various organisational changes that could be made very simply. How are you driving efficiency in ensuring that in Land, for example—the obvious one for the Army—they are spending money efficiently?

Tom Wipperman: As the Committee is aware, we are running a substantial efficiency programme as a whole. Our current forecast is that over the decade we will deliver nearly £30 billion in efficiencies. I think it is £29.2 billion against an original target of £25 billion. Of that £29 billion, £25 billion is now in delivery. That is working with the commands and the other TLBs to agree maturity levels on those initiatives and to collectively agree that they are definitely delivering and to make sure that we can support them. We are working consistently on driving efficiency across the departments.

David Williams: To offer some reassurance, what we do not want to see coming out of the defence design work is an operating model set in stone that will look exactly the same in the next five years or 10 years. We need to be quite dynamic to reflect the nature of the capability challenges and the financial challenges that we face.

We have been able, in in-year management, to be relatively hands off and relatively respectful of delegations that we have in the system in the two years after spending review 2021 because the programmes were broadly in balance with the budget. As you might expect with the financial challenges linked to inflation that we are now dealing with, we are being more intrusive. We are being more engaged. The forward plan will need a set of decisions which, in the end, will come to Ministers,



HOUSE OF COMMONS

including additions to the programme to reflect the direction of travel in the Defence Command Paper refresh.

Without offering a view on how delegated the operating model will be when we conclude our defence design work, for our approach on managing through this year and next year, getting to the next spending review and then taking a view on the forward plan overall, we need to be very careful about levels of commitment. We need to be very careful about the pace at which spend is being committed. We need to be absolutely determined about finding efficiency. The NAO report sets out that most of our efficiency plans linked to the equipment programme are pretty mature or in delivery, but we have to be quite relentless on that over the next 18 months or so to get the budget to work in the way that we want it to.

Q23 **Chair:** What is the Department's definition of efficiency?

David Williams: Definition of efficiency? Ideally, it's—

Q24 **Chair:** Do you want me to help you on that? Efficiency should mean either that for the same amount of money we are getting a greater output, or that we are getting the same output for a lesser amount of money. You can see it, for example, in the auto industry. Too often the Treasury definition of efficiency is that we are spending less money, irrespective of the impact on the frontline. What is the Department's definition?

David Williams: Our definition of efficiency and productivity is exactly as you set out, Chair, as opposed to economy or spending reductions. Depending on where you sit in the system, one person's view of efficiency and another person's view of a cut will depend on how closely associated you are with the thing that we have stopped doing. Your definition is right. Indeed, some of the challenge for us in the immediate future is to ensure that enough of our efficiency programme is focused on maintaining outputs at lower cost, rather than increasing outputs for the same cost because we need to take some money out.

Q25 **Derek Twigg:** Mr Williams, how many programmes in the last five to 10 years have been cancelled, scaled down or deferred because they are unaffordable?

David Williams: I don't have the precise number in my head. We set out a range of decisions in SR21, in the initial integrated review. Some of those decisions are reflected in the write-offs part of the annual report and accounts. We can talk about those, but I do not have a headline number unless other colleagues do. I would be happy to—

Q26 **Derek Twigg:** Can you write to us?

David Williams: Yes.

Q27 **Derek Twigg:** On that sort of line, the head of the National Audit Office, Gareth Davies, said about the equipment plan 2023-33, which we have



HOUSE OF COMMONS

been talking about this morning, that “Deferring choices on spending priorities until after the Spending Review, while understandable given the government’s ambitions expressed in the updated Integrated Review, risks poor value for money if programmes...are later cancelled, scaled down or deferred.” What is your response to that?

David Williams: It risks poor value for money, but those are not a set of decisions that we have yet made.

Q28 **Derek Twigg:** We will be interested to see what list you send back to us.

David Williams: Sure, but I am thinking forward. When I think about the affordability of the equipment plan in particular, as accounting officer with my responsibilities to Parliament for value for money, one of the really important considerations for me is the current level of contractual commitment.

In the first year or so of the equipment plan we are about 50% contracted. By the end of the 10-year period it is down to 12% or 13%. It is about 25% on contract overall, which means that you have quite a lot of room for choice without necessarily having to go back and disturb programmes that are already in train and on contract, and spending like that. We have plans over a 10-year period on what we would like to do, but only a proportion of it is on contract.

The particular point that the Comptroller and Auditor General was getting at is if you have to go and muck around with defer/delete programmes that are on contract and spending. I do not know whether, from a DE&S perspective, Mr Baguley wants to say anything.

Adrian Baguley: As you know, from a delivery perspective, when we sign a contract with industry we want to try to ensure a stable flow of funding through that. Anything that defers funding that is on our side of the ledger as opposed to industry’s capacity creates an issue for us in renegotiating that contract. Protector was a classic example of that, where the Department took an active decision to defer the programme for two years to manage affordability, but that injected a bunch of costs into the programme, which you can see reflected in the EP. From a delivery perspective, those are challenges that we try to avoid if we can by making sure that we mess around as little as possible with committed programmes but have greater control over the things that come into the programme and on to contract. Once we have placed a contract, that will invariably lead to cost pressure.

Q29 **Mrs Lewell-Buck:** In response to my colleague Kevin’s question earlier, you have variously mentioned deep dives, close work and continuous dialogue. I am struggling. If all of that work is going on, how do plans remain unaffordable? This is not the first time. The plans are always unaffordable. What has gone wrong, where and with whom?

David Williams: This is principally down to the impact of inflation, which has added £10.9 billion to the equipment programme. If you look at



HOUSE OF COMMONS

operating costs, the costs of the armed forces pay award and the civil service pay award, just for this year, over and above the level for which we were funded in the last spending review, is £800 million. If you compound that over a 10-year planning horizon, it becomes a large number. The ability of frontline commands to deal with that short-term acute pressure without taking measures that, in the end, really need to be reserved to the Department or to Ministers is constrained. That is why the plans come under such pressure.

What we do not want to do, in a world where not only is there uncertainty and fluidity on the cost side of the equation, but we are not yet certain about the Defence budget beyond the next spending review, is to take measures to cut capability that we may in future be able to afford. We are looking to balance those two sides of the equation.

Q30 Mrs Lewell-Buck: What I am struggling with is this. You mentioned inflation and pressures this year, but this is not the first time that it is unaffordable. Is there something fundamentally broken and going wrong somewhere that is causing it to be continuously unaffordable? This is not the first time.

David Williams: I don't think the plan was unaffordable last year, so it was a change from the previous plan. There is forever a challenge within defence equipment procurement in being able to buy everything that the armed forces might want within the budget that we are able to allocate towards that procurement. We are constantly making decisions about the priority of spend in a world where some of the lived experience, both of how we organise ourselves and industrial performance, which we are getting after as part of our acquisition reform, means that not everything arrives on time. It is a perfectly logical thing to over-programme in the early part of the equipment plan so that you make sure you spend the money when stuff slips. I would rather get to the point where we have greater confidence that stuff is arriving on time. That is absolutely at the heart of work that Defence Equipment and Support is doing, and the Department is doing. This Committee, in Sub-Committee guise, made recommendations on that over the summer.

Defence is an environment in which there is always something else you could spend money on if you want to. It is getting the balance right between aspiration and ambition, in a world where the threat and the way in which we will fight in the future is evolving. What I am trying to say is that there is a degree of judgment about the budget. There is certainly a degree of judgment about the costs, but there is also judgment about the content of the programme and what we are trying to deliver. What we are trying to do is optimise all three of those variables.

Q31 Mr Jones: It is, but the fundamental issue is that it is ambition over resources, isn't it? Unless you actually get an increase in the defence budget, that is going to continue. I accept that you are doing your best trying to balance all the plates to make sure that they stay on the poles, but unless you have an increase, the other option—I am not getting at



HOUSE OF COMMONS

you as civil servants; it is a political one—is that something is going to have to be done about ambition. If you cannot put extra cash in, you are going to have to start saying, “Which capabilities are we not going to be doing?” That is the fundamental choice, isn’t it?

David Williams: In the end that is the choice. Part of the reason why we have held off making some of those choices now is the Government’s commitment on the budget that it will increase to 2.5% of GDP as economic and fiscal conditions allow.

Q32 **Mr Jones:** Good luck with that.

David Williams: I am simply saying what the Government’s position is. The Prime Minister said it; the Chancellor said it.

Q33 **Mr Jones:** Oh, that’s all right then.

David Williams: And the Foreign Secretary said it.

Q34 **Mr Jones:** We have touched on this already, but I want to turn to operation expenditure. In 2022-23, it increased by 9%. How are we trying to control the RDEL in terms of those costs? As you have said already, inflation is bearing down on everything. It is not just the equipment plan, but operational.

David Williams: For preciseness, is that spend on operations or day-to-day operating costs of the Department?

Q35 **Mr Jones:** It is the RDEL resources.

David Williams: Tom, do you want to come in on this?

Tom Wipperman: Sure. We are seeing the inflationary impact come through on our RDEL spend. It is worth remembering that at the point at which our budget was set with the Treasury at SR20 and SR21, the OBR was forecasting inflation at this point in time to be 2.1%. The report it published at the autumn statement a couple of weeks ago is now forecasting 6.7% for this year and 6.1% for next. That inflationary effect is coming through.

We are seeing that manifest in our RDEL spend in a number of areas. We have discussed pay. There are pay awards above that which we had planned. We also see it in things like utilities. We think that next year we are going to see, roughly, a £245 million or £250 million increase in our utility spend. As you are aware, we have forward purchasing arrangements for forex and for fuel on a rolling three-year basis. As those start to roll off, we will start to get exposed to higher rates of inflation on some of them. That is starting to play through as well.

We will also see it as some of our contracts that were on a firm-price basis, so we had passed that risk off, start to roll off and we go into new pricing arrangements. Industry will be less willing to take inflationary risk in the sort of environment we are in. We are seeing inflationary pressure



HOUSE OF COMMONS

play through into our RDEL spend. Mr Baguley may want to comment on that.

Q36 **Mr Jones:** You published a report, "The Drivers of Defence Cost Inflation". What were the recommendations from that?

Tom Wipperman: Sorry, I missed the question.

Q37 **Mr Jones:** You had a report in 2022 called "The Drivers of Defence Cost Inflation" as a response to recommendations from the PAC. What were the main headlines on that?

Tom Wipperman: We have done some extensive work on inflation in the Department. We have worked through the cost base on both RDEL and CDEL. We have identified the 18 or 19 different indices that drive some of our costs. We do not just take the GDP deflator or CPI. We have material spend for industrial materials. We have clothing spend. We have labour market indices. Various indices are used to make an assessment as to the inflationary impact that we will see. In doing so, we then apply a judgment about the extent to which we have contractual protection, whether that is industrial commercial contracts or with our forward purchasing programme, fuel and forex. That gives us a sense of the extent to which we are exposed to inflation, and a sense as to when that will play through.

I think we will tend to see two big macro effects. The first is that inflation is not coming down as quickly as originally forecast. The OBR report in November shows that it is going to take longer to come down. That means that we will see a delayed effect. Secondly, we went into this inflationary period estimating that around 25% of our contracts had protection from inflationary effect. As those roll off, we will start to see a lag. My estimate is that it won't necessarily spike, but we will see slower growth and it will be more permanent as it starts to come down.

Q38 **Mr Jones:** Where are we on forex?

Tom Wipperman: On forex today, we continue to do forward purchases. We have a rolling programme on forex. At the point at which we enter the financial year, 80% of our forex is pre-purchased and it is actually the same for fuel. That forward purchase gives us price certainty so that we can plan against it and minimise our exposure to variations in the market.

Q39 **Mr Jones:** What is your indication of where that is going?

Tom Wipperman: There are probably better experts than us on future fuel forecasting, but we would take it off the Bank of England, OECD and the OBR. We take those feeds into our planning.

Q40 **Mr Jones:** If you have those types of inflationary pressures, how is that affecting your day-to-day operations? You have to do less if you cannot afford it. What is the practical effect?



Tom Wipperman: There are two things. At macro level, yes, it does, but, as the EP shows, we have other layers of protection beyond that pricing. We are holding substantial risk inside costing in our EP on both procurement and support, which in total is nearly £23 billion over the period. That has gone up from 5% of our plan to 8% this year, which reflects some of the inflationary risk, so we have more protection. That is available to projects to use, should they need it. We would expect projects to absorb some of that risk if inflation materialises in their project.

We are holding a further £4 billion of contingency across the plan that is unallocated and available to deploy. There is a further £3 billion on top across the Department as a whole. We have a number of layers available to us to respond in immediacy to those sorts of challenges if they start to materialise.

Lieutenant General Magowan: Outside operations, we will have to manage activity during the year, which we have done this year.

Q41 **Mr Jones:** That's not doing things, is it?

Lieutenant General Magowan: Correct. Yes. Outside operations.

Q42 **Mr Jones:** Training and other things that are cut back on.

Lieutenant General Magowan: Correct.

Q43 **Martin Docherty-Hughes:** Something in the time structure seems to have happened in the last 18 months. Correct me if I am wrong, but I have heard a narrative that over the last year there have been difficulties. Would that have anything to do with the fact that in September 2022 we had a mini-Budget statement which saw the pound losing 3% against the US dollar and falling 0.75% against the euro? Did that mini-Budget statement have any impact on your long-term budget, how you spend your money and on inflation? There seems to have been a fly in the ointment somewhere in the last 18 months.

David Williams: It is probably for you to draw your own conclusions on the causes. Like many other sectors of the economy, we have been dealing with exceptionally high levels of inflation. We are not immune as an employer from the cost of living pressures that many people have been—

Q44 **Martin Docherty-Hughes:** Forgive me for interrupting, but when you have a 3% drop against the US dollar in a Department that has a heavily dollar-dominated financial process, are we saying that the mini statement did not have an impact on the budget of the Department?

David Williams: I am happy to say that increases in inflation and changes in the sterling-dollar rate have added to our financial pressures, but—

Q45 **Martin Docherty-Hughes:** That is all I need.



David Williams: It is for you to decide what the causation is.

Q46 **Chair:** Thank you very much. Adrian, do you want to come in?

Adrian Baguley: Perhaps I could pick up on Tom's point earlier about how we manage the commercial arrangements with industry. As we negotiate the contract, we don't only use CPI or RPI as the indices. We select the right indices for the nature of the work that is being done. That is how we manage inflation. We are seeing significant labour and material inflation and that is flowing through to some of the contracts where we have not been able to pass that off.

If you recall, there are two clear types of contract. There is firm pricing, where we can pass the inflationary risk across to the supplier, and fixed price, where we vary the price with indices. It is becoming harder to pass some of those risks across to the supply chain because of the volatility in inflation. To give you a headline figure, to go back to the efficiencies discussion, over the last 12 months around the DE&S portfolio—a subset of the overall plan—we have delivered £820 million-worth of efficiencies, which has helped to completely offset the inflation effect that we are seeing. That is how we are trying to help not add that pressure to the equipment portfolio. Several Members came down earlier this year, and, looking at our data, we are still delivering 70% of our projects within the 50% cost confidence level at which they were approved. That is just to give you a sense of how we are trying to manage the impacts of inflation through driving efficiencies as we negotiate new contracts.

Q47 **Chair:** On a slightly different tack, as you know, the MOD paid over £40 million in compensation last year and payments increased nearly two thirds over four years. How do you manage those cases, and what are the future trends in claims?

David Williams: This is set out in a table in the annual report and accounts. The principal reason for the apparent increase is that we have been more transparent this year about the payments through the Armed Forces Compensation Scheme. As you see from the table, there is a set of costs for 2022-23 without the equivalents for the previous year. I think it is right that we should be more transparent in this area.

In the Armed Forces Compensation Scheme, the claims are principally driven by injury during the course of service, whether on operations or training exercises and so on. In part, the level of claims will depend on the level of busyness of the armed forces. It will also depend a bit on reflecting broader society and the extent to which people want to make the claim. The Armed Forces Compensation Scheme is there and it is designed to provide financial recompense to servicemen and women who suffer injury or harm in the course of their service. That is what it is designed to do.

Looking at the data for the last six months, the number of claims has probably reduced from where it was in the previous six months. It is



down by just under 10%, but across a year the profile of claims can be quite volatile, depending on what the armed forces are up to at any particular time. Overall, the number of open claims that we have is up on the previous year. The largest single claim by volume was around noise and reduced hearing loss where we had quite a substantial volume of claims, although as you can see from the table on special claimants in the annual report and accounts it was not necessarily financially the most substantial.

Q48 Chair: Is there any particular reason why the figures jumped by two thirds?

David Williams: It looks like it has jumped by two thirds because we have not previously reported it, rather than its having gone up materially. I can give the Committee a note, if that would be helpful. It is probably worth separating out the relatively small number of high-value claims, where individuals have suffered, frankly, life-changing injuries. Those take some time to work through to ensure that the level of support is appropriate to clinical need. Settlement of one or two of those high-value claims can have quite a distorting effect on the trend, whereas I don't see a marked tick-up of the lower level payments of a few thousand here or there on the data that I have.

Chair: We move to equipment acquisition.

Q49 Derek Twigg: This is a question for you, Lieutenant General. General Sanders has said that the Army will become "the most lethal in Europe by the end of the decade". However, you told the PAC Chair that the Army will "modernise...by increasing investment in long-range fires, air defence, electronic warfare, Intelligence Surveillance and Reconnaissance, and logistics within current budget settlements. Funding constraints mean that to do this we will have to deprioritise or defer some existing programmes." Which programmes do the lessons from Ukraine suggest we should cut?

Lieutenant General Magowan: I think I said that at the last hearing. That is the so-called four-plus-one, which the Chief of the General Staff has spoken about publicly on a number of occasions. Mr Twigg, you have just listed what those four-plus-one things are.

The Army already has those capabilities, but the lessons from Ukraine and other operations worldwide show that we want more resilience and greater capability in the areas that you have just listed. At the moment, there isn't the headroom in the equipment programme in the Army to reach the level of requirement that we think we need against the threat. We are now working as part of ABC 24, but more crucially as part of what we hope is an integrated review with a longer-term settlement to determine what, within the Army programme or across defence, we might take on operational risk to get after the things you have just mentioned.



HOUSE OF COMMONS

We have not completed that process, so I cannot say here today that these are the capabilities within the Army or across defence that we are going to delete, defer or descope to get after the things you have mentioned, but we are going to have to make those hard-edged decisions if we are to realise the operational requirements that you have just listed.

Q50 Derek Twigg: What is the timescale for making those hard-edged decisions?

Lieutenant General Magowan: On the face of it, we have ABC 24 coming up right now, where we will start to prime those conversations. We are hoping that we will be able to settle a longer-term financial agreement towards the end of 2024-25—we'll see—which will enable us to set a longer-term demand signal.

Q51 Derek Twigg: I understand why you are answering in that way, but are we talking about significant parts of our existing programmes being deferred or deprioritised? You made quite an important statement. I am just trying to get a grip on the scale of things. You say that some hard decisions will need to be taken.

Lieutenant General Magowan: Some of the capabilities that we are already investing in are part of the programme of record. For example, we are already investing in greater medium-range air defence and short-range air defence in the Army. That is as a result of the lessons we are learning on operations, not just from Ukraine. We are already doing that. We are already increasing our electronic warfare capability as well. We are investing a lot more in some of our uncrewed capability in terms of ISR.

Q52 Derek Twigg: Will some difficult decisions have to be taken?

Lieutenant General Magowan: Once we have war-gamed all these scenarios through, if we want to significantly increase our capability in the areas that you have listed—the so-called four-plus-one—will we have to make hard-edged decisions across defence to get after them? Potentially, yes, but we have not done that work yet. We are certainly not in a position to announce it.

Q53 Derek Twigg: You said some of it will be in 2024.

Lieutenant General Magowan: We are hoping for a longer-term settlement so that we can plan for the future with industry.

Q54 Derek Twigg: You said you are hoping for a longer-term settlement.

Lieutenant General Magowan: We are.

Q55 Derek Twigg: To reduce or stop the deprioritisation, or the cancelling?

Lieutenant General Magowan: No. One of the key lessons we have learnt from Ukraine is that we want to establish long-term relationships with industry to give them the confidence in their supply chains that we are in this for the long haul. We are back to state-on-state deterrence,



and therefore we want that war-fighting deterrence takes time to bring up to a level where we've taken operational risk before.

Q56 Derek Twigg: Do you have any indication of when you might get that settlement? What is the timescale for the settlement, Mr Williams? Clearly, you are making a very important point on having this settlement. What is the settlement and what is the timescale?

David Williams: A couple of glosses from me. The next opportunity for a formal multi-year settlement would be a spending review, and the timing for that is a matter for the Treasury. My guess is that it will be in either 2024 or 2025, depending on what is happening, so reasonably soon in the nature of things.

Of course, we plan over a 10-year horizon regardless of how long the financial settlement lasts. It is just that the level of risk and judgment that we make about what we might be able to afford is a more difficult calculation when more of the budget is up for negotiation. It is one of the reasons why—

Q57 Derek Twigg: I am sorry to interrupt, but the General's assessment is that some hard decisions will have to be made unless suddenly an extra lot of cash comes your way.

David Williams: The equipment plan overall is about 6% over budget across the 10 years. We have to deal with that. In cash terms it sounds like a large amount of money, but 6% over 10 years is not an unimaginable margin. On the other hand, it is unlikely that it will either make sense in capability terms or be affordable for us to invest in all of the new capabilities that we want, through the Defence Command Paper refresh, through our lessons from Ukraine and the way we see war-fighting develop, without there being some changes to the previous plan. In other words, the new capabilities are unlikely, in my view, all to be additive, partly for financial reasons but partly because it will not make sense in the long term.

Q58 Derek Twigg: I am just trying to get agreement from the civil service and the armed forces. Would you agree with the General's assessment that some hard choices will need to be made?

David Williams: Yes, including which up arrows we go for.

Q59 Derek Twigg: That's fine.

Lieutenant General Magowan: Can I add a piece? I don't want to give the impression that we are just going to wait around hopefully for a multi-year settlement.

Q60 Derek Twigg: That is the impression I am getting at the moment.

Lieutenant General Magowan: We are not. We are absolutely aiming for some longer-term investments that we know we need to do. We have publicly declared that we need greater lethality to ensure war-fighting



deterrence tomorrow morning. We have already started on that journey. We have already signed contracts invoking greater lethality, for example, with BAE. We have been given additional resource from the Treasury twice, in autumn 2022 and spring 2023. We are using that money today to increase a range of capabilities, and we are going to do more next year as well. We are not standing still.

Q61 **Derek Twigg:** You are swimming slowly through it.

Adrian Baguley: One of the big lessons we have learnt from Ukraine, very much in the munitions area, is to try to make sure that our pipeline of munitions is always on, rather than boom and bust.

Derek Twigg: There is a bit of treading water going on.

Q62 **Gavin Robinson:** I am just trying to piece some of this together. The permanent secretary was very helpful in talking about the contractual commitments over the forthcoming 10-year period, and highlighting the virtue associated with not being contractually committed in a large degree towards the back end of that 10-year period, but we have 50% commitment at the front end.

That, of course, highlights a reluctance at times to get involved in the sort of contracts that would allow you to save money over a longer term. When we piece it together with Ukraine, it absolutely highlights the strategic foolishness of discontinuing NLAWs, for example, recognising or believing that there wouldn't be short, face-to-face urban combat. We have seen the utility of those weapons since. For three or four years, there have been discussions about the associated savings through a light weapons system portfolio agreement and yet, if anything, there is a longer-term, manageable contract that would have delivered significant savings to the tune of over £1 billion over the next 10 years, but we still sit without the contract agreed.

Yes, we can say there is flexibility over the longer-term equipment plan within the 10 years, but we are not seizing the opportunities to get affordability and to build in price benefits at this stage. Can we piece it together and get a holistic answer as to why, whenever gifts are offered through strategic planning and long-term commitments with associated benefits, we are still not seizing them three or four years later?

Lieutenant General Magowan: We are definitely working with industry to secure long-term contracts. That is what it is all about. We have shifted from what we would say in the military as "operating" in various parts of the world to now "deterring", but being prepared to war-fight if necessary. That means long-term commitment to industry. That is the space we have moved into, and that is the reality we have come to since February 2022.

Q63 **Gavin Robinson:** Last year, General, we were told that the experience in Ukraine would accelerate the ability to secure those long-term contracts with the associated financial benefits, yet here we are a year later still talking about securing them, not having done so.



Lieutenant General Magowan: We have secured some.

Q64 **Gavin Robinson:** Why is that?

Lieutenant General Magowan: We have secured contracts.

Q65 **Gavin Robinson:** I have given a classic example of when you have not. It is four years now.

Adrian Baguley: We have placed contracts for replenishment of NLAW.

Q66 **Gavin Robinson:** It's not NLAW. I know about NLAW. It is about new agreements that have been made.

Adrian Baguley: We have placed contracts for Starstreak, a high-velocity air defence missile. We are working with Thales to place the next contract. We have kept them contractually committed for the stock that they had, which we purchased. They need to redesign some of the parts of the missile because of the obsolescence of some of the components, and we have kept them contractually covered for that. We are working very closely with them on that long-term demand.

The essence of what you are getting to is that we have taken operational risk for a period of time, and therefore we did not have those always-on capabilities. Given the change in operational tempo, we are now looking to lay in long-term arrangements with Thales and with MBDA to make sure that we can actually have that. We are working very closely with them to understand the export potential. We need to layer that on top of our own requirements so that we can put that through the factory, if that makes sense.

David Williams: To your point, it is about optimising the various factors. Look, a good outcome for me is not that we don't get anything on contract, we don't get money out of the door, and we don't get capability for the armed forces. My point earlier was that, in the equipment plan as we currently have it, there is still space for choice without having to cancel things that are already on contract.

I know that the Secretary of State in his last appearance before the Committee said he is keen, with the Minister of Defence Procurement, to engage the Committee, probably now in the new year, on our thinking about acquisition and procurement reform. As we set out in the defence Command Paper, we are really interested in how we can shift the relationship with industry, how we can get industry engaged early in our requirement-setting process and how we can give greater confidence about pipelines.

We have a lot of experience in the complex weapons pipeline with MBDA about the value of multi-year deals that still give you flexibility to change the composition of particular products and capabilities within them. I think the direction of travel that you describe seems absolutely where we want to get to. It is just that we have to make a bit more progress.



Q67 **Gavin Robinson:** It just takes a bit of time. I will hand back to the Chair, but I want to say that the answer, Sir, is more piecemeal contracts in the short term. Focusing on export potential is absolutely the right thing to do, but don't forget that NLAW only survived over the last 10 years following discontinuation from MOD because of exports to the far east and nothing else.

Lieutenant General Magowan: Can I reinforce and bring to life what the permanent secretary said? There are three areas that we are working on right now, where we anticipate doing exactly what you have just said. In munitions, we have written a strategy, and we are now writing a plan. In integrated air missile defence, we have written a strategy, and we are now writing a plan. We have an uncrewed systems strategy as well. Those three things are being driven and delivered to do precisely what you have just said.

Gavin Robinson: Thank you.

Chair: It still took a year to sign the agreement for the munitions, which we found extraordinary. If I can interrupt the proceedings, I welcome a newly appointed member, with effect from last night, Jesse Norman. His declaration of interest has been circulated. Is there anything you need to add to that?

Jesse Norman: You are very kind; thank you, Chair. I think I have put in my declaration of interest that I have an historical shareholding in BAE Systems, well below the threshold for disclosure, but it is something that should be brought to the attention of the Committee.

Chair: Thank you very much for that. Richard, are you ready to move to Chinook?

Q68 **Richard Drax:** I am. Good morning, gentlemen. On the Chinook helicopter, and in particular the Chinook CSP—the one with the longer distance, the variant, the heavy lift, which is normally associated with special forces—can you tell us where you are now with the delayed programme? Perhaps, General Magowan, you are the one to answer. If I may read a quote from you last time: "Without that capability, we will be unable to prosecute the targets we need to against the adversarial threat. If we wish to prosecute the targets against Government policy today, our operational judgment is that you need that capability." General, where do we stand now on that essential bit of kit, as you certainly think it is?

Lieutenant General Magowan: I stand by what I said. It is only essential if you want to do that. If the policy is to do what I said—the hardest targets by the special user—then our analysis and our judgment is that—

Q69 **Richard Drax:** Do you think we might not want to do that?

Lieutenant General Magowan: I just respond to the policy that is required. That is an operational requirement today. It is not my decision. My decision is to provide advice on what military capability you need to



HOUSE OF COMMONS

prosecute that requirement. That requirement stands today. To prosecute that target today and tomorrow, not least tomorrow, against the threat, our military judgment is that you need the extended range Chinook CH-47 helicopter.

Where are we? We continue to work with the Department of Defence through Foreign Military Sales and Boeing to secure the agreement. That is the position today.

Q70 **Richard Drax:** Nothing has been put together? There are no 14 new Chinook helicopters at the moment.

Lieutenant General Magowan: Initial operating capability is 2027.² Again, we continue to negotiate with DOD through FMS and Boeing to secure the deal.

Q71 **Richard Drax:** This three-year programme was deferred in March 2021 by the investment approvals committee.

Lieutenant General Magowan: Correct. We had a head-mark number as well, which was higher than 14. We have come down to what we believe, from an operational perspective, is a minimal viable capability to meet the requirement.

Q72 **Richard Drax:** That is 14, is it?

Lieutenant General Magowan: Yes.

Q73 **Richard Drax:** I am baffled that you are still implying that we may not need this. I understand that you are talking from an operational point of view as a general. Are you saying that the MOD is not necessarily—

Lieutenant General Magowan: I think I am being really clear. Against the requirement to prosecute the hardest targets by the special user, we need that requirement. If that requirement disappeared tomorrow morning, which is a policy decision and not my decision, we would not need the particular extended range capability in that CH-47.

Q74 **Richard Drax:** Right, so you are fighting very hard to get these helicopters?

Lieutenant General Magowan: Correct, provided that requirement remains.

Richard Drax: Okay.

David Williams: If it is helpful, we are in the programme with the US for the acquisition of those 14 helicopters. We have been in it and that remains the situation today. There was concern in the summer about cost growth in the programme, and how that could be afforded and what the impact would be on other related capabilities, including, conceivably,

² Correction: The Ministry of Defence has subsequently noted that Initial Operating Capability is currently planned for 2029.



other helicopter projects. That has a question around whether this is the best deal that we can get, and if it is the best deal that we can get, do we want to carry on with it? As the General said, if we do not carry on with it in the way that we are currently planning, there will be an impact on the range of operations that our armed forces are able to prosecute.

No decision has been made to withdraw from the programme. As I think you heard from the Secretary of State when he was here at our previous session, he is actively engaging with his counterparts in the US. We are having conversations with Boeing about the next steps in the programme. I expect that decisions on that will be taken shortly.

Q75 Richard Drax: What is the cost of the budget on this delay? If you were going to buy helicopters years ago, and you are now going to buy them potentially years ahead, what is the extra cost that you are incurring in this delayed programme?

David Williams: The budget for the programme is about £1.5 billion. The cost growth that we have been looking to manage away is a combination of our decision in the integrated review and spending review 2021 to defer the programme, plus the impact of inflation. It is roughly 50:50, I think.

Richard Drax: All right; thank you.

Q76 Mr Jones: The former Secretary of State wasn't in favour of it, was he? His argument is that, first, it is an expensive programme and, secondly, it would have an impact on the medium-lift helicopter programme. Clearly, we have a new Secretary of State, and you are going round the voyage yet again with him.

It is a foreign military sale. It is obviously going to be in dollars. That adds to our budget in terms of the exchange mechanism. It is also yet another example of Boeing buying off the shelf from the United States. What commitment have you got from Boeing that any workshare will actually be done or procured in the UK? Boeing sell a good story on a whole host of programmes that you have given them, but in reality what comes out in terms of jobs and long-term investment in the UK is, frankly, pretty pathetic.

David Williams: Others may want to come in. On this particular programme, part of the value for us is joining a joint programme with the US with a single production line. This is not a good example of looking for onshoring of work, but there are opportunities in other programmes.

Q77 Mr Jones: Hang on, let's go through the crime sheet. You did it on Apache. You have done it on P-8. Wedgetail, to a large extent, is not quite the same. Now you are doing it on this. Boeing is getting huge amounts in orders from the UK taxpayer, mainly financing American jobs rather than UK jobs. There is no commitment from Boeing, even if it is not on this programme, to other investment in the UK.

Lieutenant General Magowan: There is.



HOUSE OF COMMONS

Q78 **Mr Jones:** Tell me where.

Lieutenant General Magowan: I don't have the details here, but we are negotiating with Boeing right now to ensure workshare in the UK.

Q79 **Mr Jones:** We had the same on P-8. I met Boeing on numerous occasions and what they do, very cleverly, is to conflate Boeing defence with Boeing civil, and then point to civilian projects that were happening in the UK anyway. They have not yet put a huge commitment into UK jobs. Again, we have got into a programme that is going to be pretty poor value for the taxpayer in jobs and future investment. Unless you start holding Boeing's feet to the fire on this, they are going to keep doing it. Great for them.

David Williams: As you say, it is not the same situation in each project. The Committee has been to Birmingham to see the E-7 conversion process. We can share with you where we are in the supply chain.

Q80 **Mr Jones:** Wait a minute. The Chair and I went to Birmingham to see Boeing. Yes, fine, but that is jobs for a short period of time—three years. There is no long-term commitment to invest in skills or ongoing production in the UK. P-8 is a great example of that as well, where they always turn to the fact that jobs are being created at Lossiemouth. Anyone who got the contract would have to do that anyway. The concern I have with Boeing and these foreign sales is that there is no commitment to UK Plc in it. Boeing clearly do not have any commitment to invest. This is just another foreign military sale for them.

Chair: This is something that we are going to have to return to. In the meantime, following the assertion that there is work being done with Boeing to provide not just short-term but longer-term jobs in the UK, it would be very helpful if you could write to us and provide us with details of that.

Lieutenant General Magowan: We can do that. I was referring to CH-47ER on that.

Chair: We await your answer.

Mr Jones: Can I clarify? When you get that, we want Boeing defence. We do not want them throwing in the nonsense that they do every time, where they throw in the Boeing civilian sector.

Q81 **Chair:** Also, we do not want them buying up a servicing facility rather than creating a manufacturing capability. To be fair, GE took over a major manufacturing facility in the UK and have developed it. We have not seen that with Boeing. They have, I am afraid, a fairly lamentable record in this regard. We would like the detail, and we may wish to revert to you after we have examined it.

Lieutenant General Magowan: We are also using the CH-47 negotiation at the most senior levels of DOD and the Ministry of Defence to improve the Foreign Military Sales approach from the UK perspective.



HOUSE OF COMMONS

We anticipate seeing beneficial changes to FMS over the next few months and years.

Chair: When that has come to fruition, we would welcome either a letter or a briefing. For his initial appearance on the Committee, I turn to Jesse Norman.

Q82 **Jesse Norman:** You are most kind; thank you, Chair. I have a very small supplementary question. I apologise for my extreme ignorance in this area. Could any of you spell out very quickly, in two or three sentences, what approach you take to creating long-term jobs out of these kinds of contracts? Have you written down what it is? Is it programme specific? "Do you care about long-term jobs? Do you care about skills? What kinds of things are you negotiating, and what do you invest in? What is your track record like?" It is those kinds of things.

Adrian Baguley: I will use shipbuilding as a starter and then—

Mr Jones: I wouldn't if I was you.

Adrian Baguley: —I will come back to Boeing. Let me set myself up and then you can have a go.

Back in 2015 we had one shipbuilding yard in the UK. We now have three. That is an increase of capacity. We are working with Babcock, BAE Systems and Harland & Wolff to increase skills and to invest in the capital facilities at those three yards, and apprentices and graduates for all of those yards. We are investing in a new national shipbuilding training centre in Glasgow. We are making those long-term commitments around the national shipbuilding strategy to build future skills.

At the risk of reopening the wound that you have just picked at, we were conscious when we were placing some of those Boeing contracts that to get the benefits of foreign military sales there was only limited opportunity for UK suppliers. That is why, when we negotiated with Boeing on the P-8 purchase, we looked to get them to open up commitments for UK suppliers to bid into their commercial aircraft programmes, which far exceeds the defence programmes in volume terms. On P-8 specifically though, the auxiliary fuel tanks for every P-8—whether it is the nine that we operate or the 180 that are operated elsewhere—are all built by Marshall in Cambridge.

Q83 **Jesse Norman:** So, yes or no, did you emphasise long-term jobs in the sector by company for defence purposes where possible, and with skills?

Adrian Baguley: Yes.

Lieutenant General Magowan: And that is part of the investment appraisals committee as well. The senior responsible owner has to come to the investment appraisals committee and make the case, to answer the questions that you have just articulated.



David Williams: We have previously written to the Committee that we use, particularly in competitive processes, the social value provisions within the contract to set out an expectation around job creation, economic benefits and skills.

Mr Jones: No, you don't. You pay lip service to it, David.

Chair: I would love us to be able to pursue that, but I am mindful of the constraints.

Q84 **Mr Jones:** That is why they gave a shipbuilding contract to Spain.

David Williams: They did excellent jobs in Belfast—

Mr Jones: There could have been more jobs in the UK if it had not gone to Spain.

Chair: We will be reverting to that on future occasions. For the moment, it is Martin Docherty-Hughes on operations.

Q85 **Martin Docherty-Hughes:** Thank you, Chair. I want to take a look at the £2.3 billion of military spend aid to Ukraine in 2022 and the Prime Minister's commitment for the same for 2023. David, what do you think of this commitment that we have made, and what funding will be provided by the Government in 2024?

David Williams: On the £2.3 billion for this financial year, we are not only planning on it but busy spending it. The out-turn will be around the £2.3 billion mark. As I have said previously, that covers both equipment and munitions support to Ukraine. It covers the cost of the training mission Op Interflex. It covers the cost of enhanced military activity on NATO's eastern flank as well. It is a range of costs in support of Ukraine's fight.

We have not yet formally agreed what the level of spend will be for next year. I think the Foreign Secretary in his first outing in the Lords said he expected it to be at least the same level. That is the working assumption that I am planning on.

Q86 **Martin Docherty-Hughes:** Could you confirm that all additional costs are being borne by the Treasury?

David Williams: Yes.

Q87 **Martin Docherty-Hughes:** Does that also mean replacing equipment in the inventory?

David Williams: The bit where we remain in dialogue with Treasury colleagues is around the extent to which some of the replenishment costs of equipment that we have gifted falls to that £2.3 billion additional funding or to the core department. In the first year they were additional to the £2.3 billion. It is one of the reasons why, in that year, we out-turned at £2.4 billion. This year we are not getting additional money from the Treasury for that. Therefore, the choice for us is either to prioritise within the £2.3 billion overall or to score against the core departmental



budget, all being in a world where the Treasury has, through the spring statement and the autumn statement, given us additional funding for stockpiles, resilience and so on. That is still subject to live debate, and we can update the Committee when it is decided.

Q88 **Martin Docherty-Hughes:** Are you accelerating equipment deliveries to our armed forces with all of that going on?

David Williams: Yes. We continue to deliver well against a range of our equipment projects. Indeed, we are looking increasingly for synergies as we think about support that Ukraine might need and where there are things that we may want to do jointly, employing new capabilities to our own forces.

Q89 **Martin Docherty-Hughes:** Briefly on this issue, I have two points. Are you making any considerations for a change of Administration in Washington next year which may have an impact on the United States commitment to Ukraine? Given some of the global issues we face at the moment, if there is a capability draw on our armed forces in other arenas, how confident are you about the ability to maintain that support for Ukraine in its battle against Putin?

David Williams: Let me start with the last point first. The Defence Secretary's announcement yesterday with his Norwegian counterpart about the maritime capability coalition reflects how we are evolving our thinking, under strong US leadership, beyond the immediate fight into what the next phase of capability requirement and capability support for the Ukrainian armed forces will be over the short to medium term. The UK is leading the maritime capability coalition, but there is a range of equivalents looking at armour, artillery, air defence, electronic warfare and so on. We will have an interest in a range of those. That is a process designed and launched under US leadership in the Ukraine Defence Contact Group. There is lots of international support.

I would characterise our relationship with the US to date on a range of these things as that in the UK we have often been willing to step in sometimes a little earlier, but in scale of support the US is of fundamental importance to the Ukrainians. President Zelensky is in the US at the moment, engaging with Congress and the Administration. It is not really for me to reflect on what the outcome of elections next year may be.

Q90 **Martin Docherty-Hughes:** David—others may want to comment—the Minister for the Armed Forces recently told us, “Our instinct is to”—accept the Haythornthwaite review recommendations—“but it is not cost-neutral.” Given the increasing pressures on your budget, which you have eloquently talked about, how would you fund these recommendations?

David Williams: We are working through the recommendations at the moment. I think Dr Murrison will be updating colleagues with a “Dear Colleague” letter shortly, and we expect to make a full response to the review sometime during the first quarter of next year. My guess is that the recommendations are unlikely to be cost neutral, or at the very least



unlikely to be cost neutral in transition. Therefore, we need to think about the rate at which we introduce the changes that Haythornthwaite has recommended, which will allow us to modify some costs. That is a choice. I am not saying it is the choice.

There is a question about how we can contain additional costs within an overall workforce share of the budget. If the cost of an individual goes up, and you want to make that the same, you need fewer people overall. I do not detect an awful lot of appetite for the number of service personnel to fall beyond planned levels. For a variety of reasons, we probably need over the next three-year period—the next spending review period—to reduce the size of the civil service in the Department. That will be an element in making the overall pay bill more affordable. It is not primarily my motivation for doing it. I think it needs to be smaller, more agile and more capable to meet the requirements that the Department is facing. Obviously, the proportion of civil service pay to military pay means that you would have to make quite a large change on the civil service side to have a material impact on the affordability of the armed forces.

Finally, and very briefly, you would accept that the share of the defence budget that we are spending on people is going to go up. It will be more challenging in a world where there is financial pressure in the programme than not.

Q91 **Martin Docherty-Hughes:** Let me ask you this. You talked about the civil service and then the armed forces. On the issue of not only recruitment but retention—Rob might want to come in here as well; it may come up on capability—what discussions have your Department had with the Home Office about the minimum salary requirement visa rule changes coming in next spring?

David Williams: I would rather write to the Committee on that topic. It is something I need to check.

Q92 **Martin Docherty-Hughes:** The reason I highlight my concern is that the Royal Regiment of Scotland alone has a substantial number of foreign nationals who make up the shortfall in recruitment, notably members of the armed forces from Fiji. It has been like that for a long time. The last time I looked, maybe one in five of the Royal Regiment of Scotland were Fijian nationals. If they left after a minimum period and were at the wage level of a corporal, they would probably be £2,500 under the salary threshold being proposed by the Government to take place next year. Does it concern you that members of the armed forces serving the Crown and doing their duty would not be able to meet the visa requirements?

David Williams: There are two points to that question. First—honestly, I would have to check—I do not think, that the way the Government are thinking about their salary cap or visa requirements is going to have an impact on the way in which we recruit foreign and Commonwealth



HOUSE OF COMMONS

trainees. My understanding is that it is not in scope, but I would have to confirm that for you.

There is a second point about whether we are paying our junior service personnel enough, which is wrapped up in the Haythornthwaite review in the concept of total reward and the value of the overall offer. Not all of it comes in direct salary.

Q93 **Martin Docherty-Hughes:** From what I can tell, you are saying—I don't know if anyone else wants to come in—there has been no discussion between the Ministry and the impact of the minimum salary requirement rules at all.

David Williams: I am not saying that. I am saying that I don't think full recruitment to the Armed Forces is a relevant consideration.

Q94 **Martin Docherty-Hughes:** At the moment, if you are an EEA national, not necessarily from the Commonwealth—it doesn't really matter whether you are from the Commonwealth—you have to meet those minimum requirements. My concern is that, in the Royal Regiment of Scotland, a substantial number of Fijians leaving to do different things will not have the right to remain. They will not meet the threshold, and we will have a vacuum in the Royal Regiment of Scotland in terms of recruitment.

David Williams: I absolutely get the concern. I just do not know what the answer is. I think on this one I am going to have to write to the Committee. We will do it quickly.

Chair: We await that letter.

Q95 **Derek Twigg:** I want to focus on reserves. There is a little piece on page 46 of the report about reserves. It says that we should continue "our focus on preparedness and our ability to use Reserve components at pace and scale". In the introduction you talk about Britain being "safe and well defended".

I believe you have had a chance to read the report on the United Kingdom's reserve forces by an external scrutiny team. I have not had a chance to read it yet. It says that "a reserve force is an essential ingredient of mass, which is needed to fight and win land battles that almost always are attritional against peer adversaries". It says very clearly that it was disappointing that "based on the metrics above, we report that the state, or health, of the Reserve is poor and declining". What is your response to that?

David Williams: We recognise the importance of the reserve forces in the integrated review and in its refresh. Indeed, looking at lessons from Ukraine, the way in which they have managed to mobilise their population in wartime is certainly something that we need to reflect on. Reserves are central, particularly for the Army, to the way we think about our future capability. Recruitment and retention is not yet at the place we need it to be. We need to make sure that there is sufficient offer in the level of activity to keep reservists engaged. I am thinking particularly



HOUSE OF COMMONS

about volunteer reservists in this space. We have a programme for the upgrading of the estate.

I would very much describe this, Mr Twigg, as a work in progress. We need to be better. The Haythornthwaite review, which we have touched on, gives us quite a good frame for thinking about a spectrum of service and how we think through, and value, reservists as part of that total force. While we are getting on with the recommendations from Future Reserves 2030, I think there is more that we need to do. We need to understand the impact—

Q96 **Derek Twigg:** I understand that, but the state of reserves has got worse, not better, in recent years. The report is very clear. I will repeat it. It says, “the...health...of the Reserve is poor and declining.” Do you have no sort of set-out plan to address that, and a timescale for it? As we have heard, it is a critical part of any mass, and certainly of our defence. Is the state of the reserves on an amber or a red warning for you in the Department at the moment? I assume that it is not green.

David Williams: I agree with you that it is not—

Q97 **Derek Twigg:** Is it an amber or a red at the moment?

David Williams: Formally, on the future reserves 2030 programme, I think it is amber. I can check that.

We have a programme, with a range of changes that we are implementing. I don't think that goes far enough. We are looking through the Haythornthwaite review. Our response to that on additional measures around reserve forces will appear early next year.

On the Ukrainian point in particular, we need to do more planning on how, in a time of direct conflict, we would need to mobilise not only the volunteer reserve but the strategic reserve of regular personnel with a reserve liability once they have retired. That has been a neglected area of our thinking in recent years.

Q98 **Derek Twigg:** A neglected area?

David Williams: Not the reserves overall, but the use and availability of, and ability to call out, a strategic reserve, as opposed to a volunteer reserve.

Q99 **Derek Twigg:** Is the state of reserves an amber or a red concern in the Department at the moment?

David Williams: It is an issue that is very much at the heart of our response to the Haythornthwaite review. I would probably describe it as amber rather than red, but we need to get after it.

Chair: There is a quick question from Martin Docherty-Hughes.

Q100 **Martin Docherty-Hughes:** It is about personnel. Earlier this year the



HOUSE OF COMMONS

Prime Minister made a statement on the Floor of the House apologising to LGBT veterans in relation to the LGBT veterans independent review. The then Defence Secretary stated, “it is important that both Opposition and our colleagues can hold me or my successor to account,” referring to plans to debate the review on the Floor of the House. Sources have said that that debate has now been replaced by a possible statement by the new Secretary of State for Defence tomorrow. Is there a statement? If not, why not? Why are we not having a debate? Has something happened in Government that means that they no longer want to debate the issue as promised?

David Williams: I think the statement is about setting out formally the Government’s response to the review. The precise form of that is down to management of the business of the House. I know that Ministers were keen that we should come back with a formal response before the Christmas recess. Obviously, that does not rule out debate at points in the future. I am trying to think through whether there has been a Westminster Hall debate in the last week or so on the question of payments.

It is a live issue. What is driving the timing of the statement tomorrow is a commitment to report back to the House, and indeed to our veteran community, about the way in which the Government are progressing the recommendations. I hope that update will be welcome. It is not intended to cut across the ability of Members to question Ministers on matters of interest.

Chair: We will move back to Ukraine briefly.

Q101 **Derek Twigg:** The MOD has provided new capabilities to Ukraine, including long-range attack drones and air defence systems. How are you accelerating equipment deliveries to our armed forces?

David Williams: This links to a programme of acquisition reform. Let’s come to Mr Baguley first.

Adrian Baguley: We are trying to bring some of the things that we have been doing for Ukraine into our own portfolio. We have been doing things like spiral development of long-range attack drones successfully with Ukraine. We are now working with the British Army to look at how we can bring the same capability into its portfolio.

Q102 **Derek Twigg:** What is your timescale?

Lieutenant General Magowan: We have just appointed a capability sponsor for one-way attack drones, or one-way effectors, as we call them. We are going to have a minimal viable product—two different products—by July 2024.

Q103 **Derek Twigg:** What about air defence systems?

Lieutenant General Magowan: We already have a range of air defence systems.



Q104 **Derek Twigg:** There is nothing new in terms of—

Lieutenant General Magowan: Yes. We are developing our counter-uncrewed—

Q105 **Derek Twigg:** There are lessons to be learnt from Ukraine, aren't there?

Lieutenant General Magowan: Absolutely. On counter-UASs—counter-uncrewed air defence systems—which are part of integrated air missile defence, we have already committed a range of money to urgent capability requirements this year. We are allocating money next year to improve our counter-UAS capabilities for British forces on operations today. We are learning lessons from Ukraine and working very closely with our allies on that.

Q106 **Derek Twigg:** Could I have a quick answer, as the time is going? Will it be in service in 2024?

Lieutenant General Magowan: Well, we hope so. We are going to scale up those capabilities as soon as we have some prototypes. We have responded to—

Q107 **Derek Twigg:** I'm sorry to interrupt. I understand that you are going to scale up and that there are plans. I am trying to get at when it will actually—

Lieutenant General Magowan: For what effect? Which capabilities are you talking about?

Q108 **Derek Twigg:** Let's go back to the drones. When will that be?

Lieutenant General Magowan: We have a range of drones today.

Q109 **Derek Twigg:** It says that there will be new capabilities.

Lieutenant General Magowan: Are you talking about air-breathing ones, surface ones or sub-surface ones? We have a range of capabilities.

Q110 **Derek Twigg:** We can do all of them, if you want.

Lieutenant General Magowan: Okay. We are developing a range of sub-surface drones. We have just seen those trialled in Australia, as part of AUKUS pillar 2. We are running what is called a spearhead—an anti-submarine warfare spearhead—that has uncrewed systems, both surface and sub-surface. They are already live now. We will scale those up in 2024-25.

There is a range of air-breathing capabilities. Some of them are already on contract—for example, Protector. We are taking ownership of our first Protector aircraft now. They will go live in 2025, with initial operating capability in 2025. I could go on. There is a range of capabilities, across the range of effects that we need with regard to operating.

Q111 **Derek Twigg:** So in the next two years we should see quite an increase in capabilities.



Lieutenant General Magowan: We will.

Adrian Baguley: Similarly, we now have counter-UAS systems—counter-drone technology—fielded on several UK operations globally. We are spirally upgrading that, as we learn lessons from Ukraine and those operations. The message is that it is not static.

Q112 **Derek Twigg:** So that I am not getting confused, that is the game. It will be done by 2024-25.

Lieutenant General Magowan: That is already live now.

Adrian Baguley: That is there in operations today.

Derek Twigg: Okay.

Chair: We will take a brief intervention from Jesse Norman.

Q113 **Jesse Norman:** I am very grateful. Can we zero in for a second on the urgent capability requirements that you mentioned, General? The Committee recommended that the MOD and DE&S should accelerate that and look at whether standard processes could be improved? How far are you along with that? Obviously, there is so much progress where we are using them and so much scope to abbreviate process effectively if we can just get it right. Can you talk a bit about that?

Lieutenant General Magowan: Of course. Again, there are lessons from operations, not just Ukraine. We do not want to overlearn the lessons from Ukraine, by the way, but there are certainly valuable lessons to learn. We want to develop a much more agile system than we had in the past. There is no doubt about that. For example, we hope that our uncrewed systems strategy will go live next month. We did a soft launch at DSEI in September. At the heart of that is the ability to bring companies in early, negotiate with them quite early about our requirements, and take risk against elements of the procurement cycle and deliver much more quickly. The uncrewed system strategy that we are trying to get after is a good example of what we call agile. As Mr Baguley has just said, the counter-UAS systems, which are urgent capability requirements, are already live in operational theatres today, so we have proven those faster.

The first thing is that that is absolutely the aspiration and we are getting after it. The other thing is that not everything can be an urgent capability requirement. Mr Baguley has teams to run. If something is urgent, it means that you are going to prioritise your resource, both your people resource and your financial resource, to make it faster. Generally, we need to go faster. We need to spiral-develop from that as well, but we need to be clear about what we need to go after fastest. Not everything can be first.

Q114 **Jesse Norman:** Isn't the point to see whether you can make those normal processes leaner so that the overall load is not as heavy? If that



is true, when can we expect a report from you or some clarity on agility and how you approach that?

Lieutenant General Magowan: The Secretary of State negotiated at this Committee that he would look to announce some reforms to our acquisitions system in the new year. In my judgment—in the Department’s judgment—at the heart of the answer to your question is the expression “spiral development”. That is the heart of agility. Rather than saying, “I’m going to absolutely nail down every user requirement, until I’m absolutely clear, and then go on contract,” I will tell you 50%, 60% or 70% of what I need and say, “Let’s get going.” The extra 30% is going to change anyway, because the battle space in Ukraine is changing by the week, so we need the contractual and financial flexibilities to do what I have just said.

Adrian Baguley: That requires some new commercial models. Through our Future Capability Group, we are putting in those commercial models. One of them is called ‘Buy and Try at Scale’, where we invite people down to Salisbury Plain and try the systems. Once we like the systems, we spirally upgrade and choose to scale them. We are changing our commercial models to help with that spiral, agile, way of delivering.

Lieutenant General Magowan: But to be clear, we are not fast enough at the moment.

Q115 **Gavin Robinson:** It would not be a Defence session without a new euphemism entering our lexicon. “Spiralling” is great, Mr Baguley. How concerned are you about the dearth of skills within defence acquisition?

Adrian Baguley: I look at skills on three levels. First, there are the skills that reside within the frontline commands—the SROs and their teams—to pull together what we call all the different lines of development; not just the equipment line of development that my organisation delivers, but people, infrastructure and training. All of those need to come together when we field a piece of equipment, as otherwise you do not get the capability benefit. That is a challenge. We are working with the SROs to make sure that their portfolio teams are suitably equipped.

We then have skills challenges within delivery organisations such as mine. Those are particularly acute in Defence Digital, because the market for digital skills is pretty ferocious. Those are our internal skills. Then there are what I would call industry skills. I have already talked about the scaling of the shipbuilding industry. There is scaling of things in the munitions complex, where we need to build long-term pipelines. The surety of contract you talked about allows Thales and the shipbuilders to build the skills pipelines and training academies that need to be there. That is the way in which I look at skills—in those three buckets.

Q116 **Gavin Robinson:** You have had some challenges. You mentioned Defence Digital, in particular. Do you consider that the NAO’s forecast amendment on the equipment plan demonstrates spiralling negativity on



HOUSE OF COMMONS

defence acquisition skills? It said that the spend has been reduced by £18 billion as programmes are expected to “be delivered slower than planned, due to supply chain challenges and insufficient staffing at” top-level budget holders “and the delivery organisations.”

Adrian Baguley: All of those factors absolutely translate into the challenges of delivering programmes.

Q117 **Gavin Robinson:** Are those challenges getting worse or better? This is an impact on forecasts. It is not an assessment of what has gone before. This is what we are expecting to happen and being able to highlight the challenges. Where is the solution? What are we doing to make sure that you can arrest that spiral downwards and still have the skills that you need for acquisition?

Adrian Baguley: Let me talk about the different buckets again. We have now put all the SROs in the portfolio offices through the Major Projects Leadership Academy, which is a cross-Government academy, to try to bring their skills in leading major programmes up to a level that is commensurate with Government standards. I mentioned the national shipbuilding academy that we are building in Glasgow. That will be a significant opportunity to build greater numbers of apprentices and to enhance skills. We are trying to tackle it at every level.

It is a challenge in an economy where the infrastructure demand is very significant. It is not just an MOD demand. I work with the Infrastructure and Projects Authority - Nick Smallwood - looking at all of the GMPP programmes. This is a challenge for us across all of the Government’s major programmes, as we mobilise the policy ambitions of each Government Department. They are all drawing on essentially the same skill base.

Q118 **Gavin Robinson:** Perhaps it is unfair to ask this. Do you think that because of that training, with the skills academies and so on, when the NAO looks at this again it will be able to revise that negative forecast and see that skills are now in place and spending will be able to accelerate, or does the reduction in spending capacity because of the skills shortages and so on suit the spending profile you find yourselves in?

Adrian Baguley: I can tell you what I would hope, although I always hold in my mind that a project manager’s hope is not a strategy. We are making the investments such that we can build those skills into our pipeline. Should you see that pull through? Absolutely. Ask me in a year or two years’ time, when we have delivered some of the initiatives. Then we can judge success.

Lieutenant General Magowan: One could also say that there are national skill shortages. I have the DMPP results here. Nine of the 52 are red. If we go into those nine, probably 70% or 80% of them are red partly for the reasons that you have described. These programmes are complex and require niche skills of which there is a national shortage.



HOUSE OF COMMONS

Everything that Mr Baguley said is absolutely right, but we are fishing in a pretty restricted pool. It is very difficult.

Q119 **Gavin Robinson:** It is not our job to challenge that and say that it is not difficult. It is our job to at least challenge you, to make sure that you appreciate the challenges and are committing yourselves to address them.

Lieutenant General Magowan: Indeed. We acknowledge the issue.

Q120 **Gavin Robinson:** I get that. David, do you mind if I ask you a question to which I do not know the answer? What is a left-hand intake blank?

David Williams: Ah. I believe that this might possibly be associated with an F-35 flying off the front of an aircraft carrier.

Q121 **Gavin Robinson:** How important is it?

David Williams: As it turns out, quite important, if you don't remove it before you try to take off from the aircraft carrier.

Q122 **Gavin Robinson:** We can be facetious about it, but this is something that sounds entirely routine, but entirely the thing that needs to be removed to give you the power necessary to take one of the expensive F-35s off our expensive aircraft carrier and it did not happen. The service inquiry was quite stark. It talked about a combination of "human, organisational and procedural factors". It is fair to say that we can probably conclude that that is a failure, rather than a factor, on an organisational, procedural and human level. Does that not illustrate starkly just how perilous some of the skill shortages are? In the most expensive equipment that we have, people are not removing something so simple to allow an aircraft to take off.

David Williams: You have seen the findings from the inquiry. We are getting after all the lessons and recommendations from that. Part of it is about training. It is about human behaviours, coming towards the end of a long deployment and we need to reflect that. Yes, it should not have happened.

Q123 **Gavin Robinson:** It is a catastrophic consequence to lose such a significant piece of equipment for such a simple, methodical piece, required by an engineer, or whoever services these things, doing what they need to do to get a plane in the air.

David Williams: I agree. This is not an excuse. This was the first major deployment of the carrier strike group. As we relearn carrier operations, there will be things where we are learning. That does not mean that this should have happened. Clearly, we do not want it to happen. I am agreeing with you.

Q124 **Gavin Robinson:** Yes, but I think that it would be a failure to consider it just in terms of deploying a carrier strike group.

David Williams: No—



HOUSE OF COMMONS

Q125 **Gavin Robinson:** This is something that is required to get a plane in the air. It is required.

David Williams: There are rather fewer consequences, but thinking about civil service skills, particularly in main building, one of my particular areas of focus is getting the basics right. There is something about the routine skills base through education, so that people know what they are doing and in times of crisis it can kick in automatically. That is absolutely relevant on the frontline. Actually, I think that it is relevant across the defence enterprise as a whole.

Q126 **Gavin Robinson:** Rather than just saying these things, how satisfied are you, as permanent secretary, that you are putting in place the required tests, challenges and commitments—working them, challenging and making sure that what you have asked to happen is happening?

David Williams: This kind of incident is subject to a service inquiry, as you have seen. Recommendations will be tracked through, both through the single service governance, in this case, and up through our defence safety committee. We take the recommendations from our safety authority incredibly seriously. The governance is there, and we can point to the actions that we have taken. The difficult bit, to be honest, is understanding the impact of those actions. That is something that we continue to try to improve as we move forward.

Q127 **Derek Twigg:** Mr Williams, should your performance still be tracked against the success measures set out in the outcome delivery plan 2021-22?

David Williams: That is the last formal external delivery plan that we produced. To be honest, it is probably more relevant for you as a Committee—as parliamentarians—to hold us to account against the commitments that we made in the Defence Command Paper refresh last summer. I do not think that we will publishing a new outcome delivery plan before the next election.

The Defence Command Paper refresh, published in July, sets out our ambition against the headings of people, acquisition reform and science and technology. I think there are 87 sentences in the plan that start with the words, “We will”. That is how I am expecting to be held to account as a permanent secretary by the Cabinet Secretary and the National Security Adviser. That is how we are gearing our internal performance reporting. All of those commitments will be reflected in our departmental plan, alongside our asks of the frontline commands for generating force elements at readiness and so on.

Q128 **Chair:** We move to the final question. Can you provide us with an update on implementing the recommendations that the Department accepted from the Defence Committee’s 2022 and 2023 inquiries?

David Williams: Yes, just not necessarily now. If there are any in particular that you would like to know about, I can give it a go. If it is a



long list of all of them, it would probably be a better use of my time to write and tell you where we are.

Q129 Derek Twigg: Can I do something completely different, as they say, and ask about nuclear decommissioning? It says in the report that there are “32 out of service and operational submarines for which the MOD is ultimately responsible”. It is on page 177, if you are looking for it. You say, “there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may result in material movements in the value of the nuclear decommissioning provisions and related assets and liabilities.” You go on to say, “These movements bring the 2022-23 MOD estimate for nuclear decommissioning at the balance sheet date to £11.3 billion discounted.”

I am interested in your thoughts about that. I know that there is a date set to decommission them. I can’t remember the detail now. Is it five submarines? What is the delay in decommissioning? What sort of contingency have you put aside, should your concerns about the assumptions differ quite significantly?

David Williams: The general will reply to start, although Mr Wipperman may want to finish up on the specialist subject of long-term liabilities and discount rates.

Lieutenant General Magowan: I will give the programmatic way ahead, against the context that you have set, Mr Twigg. This is the submarine dismantling project or SDP. There are nine³ fuelled submarines in Devonport right now. They will start to be defuelled at the end of this year and the beginning of next year. That still leaves a further 26 submarines, in addition to the nine, that need defuelling⁴. That process will all be part of the SDP. It will be phased, as I said, pretty much from now. In fact, the investment appraisal committee⁵ took the SDP just a couple of months ago, to set the drumbeat of decommissioning of the fuel rods from 2024.

David Williams: It links to a decision on what the long-term storage and disposal solution is for nuclear waste, defence and other.

Q130 Derek Twigg: They are mounting up though, aren’t they? Rather than asking General Magowan, I go back to you, Mr Williams, because one of my questions has not been answered. It is interesting language. You say, “Should outcomes differ from assumptions in any of the following areas this may result in material movements in the value of the nuclear decommissioning provisions and related assets and liabilities.” I am trying

³ Correction: there are currently 11 fuelled submarines at Devonport.

⁴ Correction/clarification: The Submarine Dismantling Project will deliver a dismantling and disposal solution for 27 decommissioned nuclear submarines. The 11 awaiting defuel at Devonport are included in the 27.

⁵ Correction: Joint Requirements Oversight Committee, not investment appraisal committee.



HOUSE OF COMMONS

to get to the bottom of that. We have the figure that you are using at the moment. What is the contingency? What will you do if it moves significantly?

David Williams: In practice, what happens is that we engage with the Treasury and get appropriate budget cover. This is not the way in which it appears in our accounts. It appears as an annually managed expenditure. It is ring-fenced RDEL, so there's not hard cash behind it. Mr Wipperman may have the exact numbers. I think that we underspent against our ring-fenced RDEL by around £5 billion last year, essentially, down to the movement on the Treasury discount rate on these liabilities.

Tom Wipperman: That is correct.

David Williams: If the discount rate changes and they go up, we will get the appropriate cover from the Treasury. Where it really hits our DELs is when we are spending the money on the actual decommissioning activity. A relatively small change in the discount rate affects those kinds of long-term liabilities. Interest rates have large movements, which is why they are not part of the formal long-term budget we need to manage against with the Treasury. Of course, we seek cover twice a year through the supply process, so we look at least to get the near-term forecast as accurate as we can.

Q131 **Jesse Norman:** Can I be clear? We compiled a list of priority outcomes. I think you have said that you are moving away from that approach and are going to present us with a new set of priority outcomes. Have I understood that?

David Williams: We were talking about urgent capability requirements, weren't we?

Q132 **Jesse Norman:** No, just overall. For example, one of them is to "Protect the UK and its Overseas Territories"—discharged. Another is to "Enhance global security through persistent engagement." The response is, "No, because we are way short of defence attachés." That is the kind of thing. Are you sticking to those kinds of frameworks?

David Williams: In the Defence Command Plan, which itself flows down from the integrated review, we say that we have four pillars from the integrated review: protecting the UK, pursuing a campaigning approach, promoting national interests globally and securing strategic advantage. Those are the four from the IR—the integrated review refresh. Then we have a strategic framework. Under our purpose to protect and help the nation prosper, the pillars are to shape the international environment, to deter and defend, to address vulnerabilities through resilience, and so on. Then we have our chapters around—

Q133 **Jesse Norman:** I fully understand. Don't let me cut you off.

David Williams: That framework will be more relevant for public reporting. We may do a version against the set of outcome delivery



HOUSE OF COMMONS

headings, for convenience, but this is the way in which we are thinking about it.

Q134 **Jesse Norman:** Just to be clear, the worry from an accountability standpoint is that you have an existing set of priorities built up over a period of time where, in very many cases, there is no target identified and therefore, for whatever reason, no capacity for external bodies such as ourselves to hold you guys to account. Now you are changing the deck in relation to the IR. Can you see how we might worry about an accountability gap?

David Williams: Yes.

Q135 **Jesse Norman:** Is it your intention that when you say, “We will do something,” there will be a SMART target associated with that in each case?

David Williams: Yes, at least one. The principal, and entirely reasonable, challenge from the ministerial team to officials off the back of the Defence Command Plan is, “We want to see the metrics and the KPIs,” so that they know that we are doing the 87 things that we said we would do—let alone external scrutiny.

The shift is a result of our thinking about how the world has moved on, how the nature of warfare is moving on and these being more relevant to what we want to do next. As I say, it would not be that difficult for us to produce a translation against the previous published set of outcome delivery pieces.

Q136 **Jesse Norman:** That would be helpful.

David Williams: It is just not particularly how we are thinking about the way we organise our work and what we are trying to learn for the future.

Q137 **Jesse Norman:** In the current framework, it is quite a deficit not to have specific targets. It may be that, for reasons of secrecy or whatever, you cannot include them, but in general they should be there for us to look at.

David Williams: I think that we will be able to relate the targets that we are developing against the Defence Command Plan back to the old targets.

Q138 **Jesse Norman:** For the new ones, as well as the translation?

Lieutenant General Magowan: To give you reassurance, the defence plan that we are writing now, on the seven chapters from the Defence Command Paper refresh, has very SMART—if I can use that expression—targets or milestones over a period of 12 to 18 months. The Minister for the Armed Forces is running that process at the moment. That is at UK secret, so we would have to have a closed session to discuss it, which we are very happy to do. They are very SMART⁶—very clear.

⁶ This refers to any targets or objectives: Specific; Measurable; Achievable; Relevant;



HOUSE OF COMMONS

Q139 **Jesse Norman:** When can we expect this translation?

David Williams: The next formal performance report is when we do the annual report and accounts next summer. It is easy to structure it on one set rather than the other. If the Committee wants an update in the meantime, we can see what we can do.

Chair: Thank you very much for that and for this session. We await your correspondence with interest and anticipation. I bring the session to an end.