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Public Accounts Committee

Oral evidence: Defence Equipment Plan 2020-2030, HC 693

Thursday 4 February 2021

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Members present: Meg Hillier (Chair); Gareth Bacon; Shaun Bailey; Sir Geoffrey Clifton-Brown; Mr Tobias Ellwood; Peter Grant; Sir Bernard Jenkin; Nick Smith; James Wild.

Jeremy Lonsdale, Director, NAO and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1-102

Witnesses

I: Sir Simon Bollom, CEO Defence Equipment and Support, Ministry of Defence, Air Marshal Rich Knighton, Deputy Chief of the Defence Staff (Finance and Military Capability), Ministry of Defence, Sir Stephen Lovegrove, Permanent Secretary, Ministry of Defence and Charlie Pate, Director General, Finance, Ministry of Defence.

Examination of witnesses

Witnesses: Sir Simon Bollom, Air Marshal Rich Knighton, Sir Stephen Lovegrove and Charlie Pate.

Q1 Chair: Welcome to the Public Accounts Committee on Thursday 4 February 2021. Today, we are examining the latest 10-year Equipment Plan from the Ministry of Defence, published in the wake of what the Government described as its largest military investment in 30 years, which is £16.5 billion over four years. For the last five years or so, the National Audit Office and the Department have identified a £7 billion gap over the period of that 10-year Plan, and we want to see how that gap, between the proposals being put forward by the Ministry and what is actually affordable, is being managed and to investigate how that £16.5 billion will be used, given that a lot of it has already been committed for new major projects. So, we want to know about the money, the gap and how the Department is assuring itself on huge projects that it is dealing with.

I welcome today as a guest on our Committee, under the guesting arrangements, the Chair of the Defence Select Committee, our colleague Tobias Ellwood MP. Welcome, Mr Ellwood. I also, of course, welcome our witnesses. We have Sir Stephen Lovegrove, the permanent secretary at the Ministry of Defence; Charlie Pate, the director general for finance at the MOD; Sir Simon Bollom, the chief executive officer of Defence Equipment and Support at the MOD; and Air Marshal Richard Knighton, who is the Deputy Chief of the Defence Staff, with particular responsibility for finance and military capability.

Before we get into the main session, we have some topical questions for you, Sir Stephen. First, I congratulate you on your recent appointment as National Security Adviser. Can you advise us when you expect to move on from the Ministry of Defence, and can you give us any indication of whether your successor will overlap with you or whether there will be a gap, and of how that is going to be managed?

Sir Stephen Lovegrove: Thank you very much, Chair. I aim to take up my post as National Security Adviser towards the end of March. The process for replacing me is under way as we speak, so expressions of interest are being elicited from potential candidates. I would expect that there might be a short period of overlap, or none at all. I would not expect there to be, as it were, an interregnum.

Q2 Chair: So it will be from one permanent secretary to another permanent secretary, you hope?

Sir Stephen Lovegrove: We will have to see. That might be a perfectly fair supposition. I am not going very far, and I will certainly try to give as much assistance as is wanted and guidance as is required from my new



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berth. I am not really proposing to take a long time off between the two slots.

Q3 **Chair:** I would hope that you are not trying to straddle two horses at once. They are pretty big jobs.

Sir Stephen Lovegrove: I am certainly not going to do that. Both are full-time jobs, that's for sure.

Chair: Congratulations again from the Committee. Nick Smith MP has some questions.

Q4 **Nick Smith:** Thank you, Chair. I think this question is best put to Air Marshal Knighton. Last year, the Prime Minister talked about developing a space command to protect us from the likes of Russia and China. We also bought a company called OneWeb for \$500 million. Can you tell us how much the Department is working with OneWeb to help protect our country?

Air Marshal Knighton: On the space command point, you will perhaps have seen the announcement last week that Air Vice-Marshal Godfrey—Paul Godfrey—is going to take over as the commander of space command. The work on establishing that command is ongoing. We expect to pull together the resources that are already working on space command and control and space situational awareness in order to build that capacity and to provide us with, in the first instance, the situational awareness that you require in space as a real precursor to protecting our assets in space.

As to OneWeb specifically, the role it will play is as a commercial provider of internet communications. It is very clear that low Earth orbit constellations have a potentially important role to play in delivering communication resilience, and also potentially delivering the mechanism by which we can deliver intelligence, surveillance and reconnaissance from space. So, the part of OneWeb that the UK owns is very much seen as a business. BEIS leads at the moment, but the opportunities that the technology might offer to defence is very close to the front of our minds. As we think about how we improve and develop the UK's space based capability, the consideration of how we might use a constellation such as OneWeb is one of those issues that we are addressing.

Q5 **Nick Smith:** Thank you for that. Last week, *The Economist* described OneWeb as a low-margin, low-growth business that launches its satellite from places such as Kazakhstan and low-cost, bargain basement sites in Russia. Can you let us know whether the MOD has invested any further funds in OneWeb, which does not seem to be a very strong proposition?

Air Marshal Knighton: I can absolutely confirm that the MOD has not invested anything in OneWeb. As I said, OneWeb is a commercial company that provides internet access. It is not being used for defence purposes. As you rightly point out, there are aspects of its ground infrastructure and where it launches from that would be of some concern if it were to be used from a defence or security perspective. We are not investing in that, and that is not how it is being used. But as I say, the technology and the



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principles of a low Earth orbit constellation do have military utility. That is one of the potential areas that we might invest in as we develop and experiment with our defence space portfolio.

- Q6 **Nick Smith:** I am concerned about what I have heard about OneWeb. If the MOD has not put budget into the company and its work yet, how much resource has the MOD put into its development?

Air Marshal Knighton: We have not put any resources into OneWeb. We are interested in understanding more about the technology and how we might use it, and how, as that technology develops, we might be able to exploit it for defence purposes, but we have not put any resources into OneWeb directly.

Nick Smith: Okay. Thank you.

Chair: We now go to Tobias Ellwood MP, Chair of the Defence Committee.

- Q7 **Mr Ellwood:** Thank you, Chair, and thank you for including me today. Could I probe a bit further on that, Air Marshal? It is very interesting that you are almost distancing yourself from OneWeb. Did the MOD support the purchase of it? You say it is a low constellation orbit and you are looking at it, but it has no direct military benefits—bearing in mind that it does not actually work yet.

Air Marshal Knighton: My apologies if I have misled you in any way. I agree with you, Mr Ellwood: it is a commercial satellite constellation that, in its current form, has no direct utility for the military. But the principle of a low Earth orbit constellation, as well as the technology required to make that constellation work, does have potential military utility, and a number of nations are talking about that. I am in no way trying to distance myself. It is just a commercial provider of internet connectivity at the moment, but the technology and opportunity are potentially quite valuable to us.

Chair: Thank you, Mr Ellwood. We now move to Peter Grant.

Peter Grant: Thank you, Chair—

Chair: Forgive me, Mr Grant. Actually, Sir Geoffrey Clifton-Brown wants to come in on OneWeb.

- Q8 **Sir Geoffrey Clifton-Brown:** Yes. Good morning, Air Marshal. One quick question on OneWeb. We have invested half a billion pounds in this company and you are not really giving us any detail on when we should see some results for this investment. Could you put a little more flesh on what you have already said?

Air Marshal Knighton: It is nice to see you again, Sir Geoffrey. I am afraid I cannot. It is my understanding that the UK Government, as part of the deal, will have a number of seats on the board, but I am afraid I was not privy to the business case that was part of the decision making around investment in OneWeb, so I cannot offer anything more. I think the Business Secretary might be better placed to comment, but I am afraid I cannot, Sir Geoffrey. Sorry.



Q9 **Peter Grant:** Good morning, Sir Stephen, and can I add my congratulations to those of colleagues on your appointment? Before we let you go, we will have to ask you about the recommendations in our report of last year, most of which you agreed to. The report made six or seven recommendations, all but one of which you accepted, and of those you expected to have delivered on all but one by the end of December last year; you said winter for the other one, which is slightly less precise. I have no doubt that colleagues will want to look at the recommendations in detail later, but overall, how many of those recommendations did you deliver on by the target date?

Sir Stephen Lovegrove: I would have to get those up, actually. I am not sure that I have them right in front of me. Actually, yes, I do. Hold on a second.

Chair: We would not want to teach you how to suck eggs, but this might have been a predictable question.

Sir Stephen Lovegrove: Recommendation 1 is, "The Department must demonstrate financial prudence by developing the next Equipment Plan with affordability and long-term sustainability at its core." We have done that.

On secondary recommendation 1B, the "promised Integrated Review must balance ambitions for future military capabilities with an affordable long-term investment programme." We will be talking about that later. We certainly will be attempting to give you assurance that we are balancing our ambitions with our resources.

The next recommendation was about the nuclear infrastructure programmes, in particular getting "the Department and HM Treasury to consider greater flexibility to manage strategic programmes on a multi-year basis." We have effectively done that. The nuclear programme is looked at in a slightly different way from the rest of the programmes in the Department. Certainly, our multi-year settlement allows us to definitely think about nuclear in a longer range than we had been able to, to date.

The next recommendation was, "The Department should decide how it is going to measure and demonstrate progress in transforming capability in a way that optimises delivery of results". I have written to the PAC on that. We continue to progress those strands of work. I don't think that anybody thinks that we have ironed out everything in our processes and procedures to absolutely the level that you, or indeed we, would like, but we are certainly attempting to do so around the acquisitions and approvals, transformation portfolio, project speeds and issues such as that.

The next recommendation was on the defence and security industrial strategy. You suggested that we should set out our "expectations of how the industry will improve its performance to address the endemic delivery and quality issues that afflict the sector." We are going to be producing the defence and security industrial strategy at the same time, I hope, as



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the integrated review. Drafts are in a very advanced state and we are very seized of the need to move from tactical value for money to strategic value for money.

The next recommendation was, "The Department should set out clear metrics indicating what progress it expects to have made, and by when, against its objectives of improving the effectiveness of the reformed procurement process." My previous answer refers to that, to be honest. It is part of the transformation programme. There is a portfolio of work under way designed to increase pace and precision in the acquisition delivery programmes. You suggested that we should be reporting to the Committee by 31 December 2020. I believe that we wrote to you on that; there was a letter to the PAC.

The last recommendation was, "The Department should write to the Committee as soon as possible setting out its approach—agreed with the NAO—for reporting on the Equipment Plan 2020–2030." We wrote to the PAC in October 2020 to confirm our approach for reporting this year, which no doubt we will want to get into later.

We have fulfilled all the specific recommendations here, but some are ongoing improvement recommendations. We are seized of the fact that we will need to continue to report to you and improve our performance across the waterfront.

Q10 Peter Grant: As I mentioned, I have no doubt that colleagues will want to look in more detail at some of the responses to the recommendations later. At one point, you mentioned that the Committee had suggested that you should reply by the end of the year. Most of the timescales are actually set by the Department; it is not usual for them to be set by the Committee.

Can I look in more detail at one of those just now? One of the fundamental weaknesses that the Committee and the National Audit Office highlight every year is the fact that you are trying to manage a long-term spending programme on a year-by-year, cash-limited budget. That doesn't work for the MOD any more than it works for any other Government Department.

In your reply to the recommendation on that, you mentioned that the Dreadnought programme now has a contingency built in, which is similar to what we have been requesting for the entire Equipment Plan. You also said that there are no plans at the moment to extend that process to other programmes within the Equipment Plan. The cost to completion for Dreadnought is estimated to be just over £8 billion. The total defence Equipment Plan is not far short of £200 billion. If the rate of progress towards multi-year budgeting carries on at the pace it is going just now, it is going to take the best part of 25 years before the fundamental weakness is fully addressed. Do you consider that to be an acceptable timescale?

Sir Stephen Lovegrove: If that were the timescale, I would certainly consider that to be unacceptable, but I don't accept the premise of the



question. Defence, even when it has been in a position where it has had to live in an annual budget cycle—and the Treasury has been completely content for this to be the case—has always effectively planned, without necessarily the certainty of the money, on a 10-year forward look. Every year, we do our annual budget cycle round, and ABC 21 is coming up quite soon. That looks out for 10 years, in the same way as the Equipment Plan looks out 10 years, and it has to be approved by the Treasury. Whether or not in the past they have been clear that the money has always been there for that, they are very well aware that there are obviously financial commitments that we enter into and will have to be paid for.

I would say that, nevertheless, the lack of a more solid funding line in the last five years has been a very difficult thing for the Department to manage around. We have said on any number of occasions that we have been desperate for a longer-term planning horizon with certainty of resources and funds, which we could really start making some strategic decisions around.

I am pleased to say that the spending review of last year has given us that. We now have four years of solid, guaranteed money. We know how much we are going to be able to spend, and we know roughly where we are going to be spending it. There are some final decisions to be made now by Ministers. Therefore, the whole of the programme is on a different basis to the one it was on the last time we had this discussion. We are in the process of a really big inflexion point for defence, and I am very pleased that the Prime Minister, the Secretary of State and the Chancellor have made the difficult decision in the current environment to put us in that position.

Chair: Thank you very much.

- Q11 **Peter Grant:** Thank you, Sir Stephen. I have no doubt that I and others will want to look in more detail at the spending review announcement later this morning. Just a final question from me just now. Do you consider that the spending review announcement by itself solves what the Committee and the NAO have repeatedly highlighted as a fundamental weakness in the way that the defence Equipment Plan is managed?

Sir Stephen Lovegrove: The spending announcement in itself gives us the basis for planning, which should give you and us the comfort that you require and that we have been desperate for to be able to get after some of these deep-rooted structural problems. Of course, it doesn't fix it by itself, and there are going to be difficult decisions to be made. Ministers will be faced with some tough choices ahead. Unless those choices are made, and officials and armed forces personnel implement them effectively, some of the problems will persist. The decision itself is a great start and the right foundation, but there is a lot of work to be done.

Chair: Thank you very much. We will now go to Sir Geoffrey Clifton-Brown.



Q12 Sir Geoffrey Clifton-Brown: Good morning, Sir Stephen. Congratulations on your promotion. Could I ask you, perhaps, if we could broaden this whole debate out a bit and get a sort of demob view from you? When you appeared before this Committee on 28 May I asked you whether we should not have a defence budget that would try to deliver more on time and on budget, and you replied to me, "We would very, very much like to do that...and it would actually be quite easy to do that—it was arguably what happened in 2010." So the last four defence budgets have been unaffordable. What has happened to the whole process since 2010?

Sir Stephen Lovegrove: 2010 got the defence budget into a place where it was affordable, but in terms of capability arguably unbalanced. Very understandably, given the economic situation at the time, the Secretary of State, the Prime Minister and the Chancellor took out pretty much everything which was uncommitted, and as a result the budget became balanced but some very, very important capabilities, which were required to keep our service people safe, and, indeed, the country safe, were removed. 2015 sought to redress that particular problem by putting in quite a lot—replacing, actually—quite a lot of the capabilities which were lost in 2010. The maritime patrol aircraft is a very good example of that. It was taken out in 2010 and then the realisation that—

Chair: Can we not go into too much detail at this point? This is just a sort of overview.

Sir Stephen Lovegrove: Okay. At that point the budget became unbalanced in a different way. There was too much capability and not enough resource. What we are attempting to do this time round is to avoid both of those traps—to make sure that the capabilities are properly designed for the future. We will no doubt be taking some risks in various areas, but it will be, hopefully, a coherent and sensible package of capabilities and it will be backed up by a proper resource envelope, which will allow us to plan properly in the long term.

Q13 Sir Geoffrey Clifton-Brown: Without taking into account the strategic expenditure review, which we will cover later, you produced a budget which has no contingency at all in it this year and is fully allocated over the next 10 years, so it doesn't allow any scope for any new equipment. Is that a really sound way to make a 10-year budget?

Sir Stephen Lovegrove: That is not what we will be doing. You are absolutely right about contingency and we discussed that at the beginning of the year with the Treasury. Together we took the view that that was the best way to proceed. If there were going to be problems during the year then the Treasury was going to bear in mind that we had agreed not to have any contingency, so that was a joint decision to manage what was a difficult financial position. The point that you make about looking ahead would be true were it not for the fact that we are in the process of balancing the equipment programme and balancing the capabilities—retiring certain capabilities early, removing others and generally doing the sort of dynamic design work that you would expect ahead of the—



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[Inaudible]—review. That is the moment at which we will be able to get this exercise into balance, that resources and capabilities will be properly in balance for the next 10 years. What I guess I mean by that is that the situation that we have been persisting with for the last four years is about to change.

- Q14 **Sir Geoffrey Clifton-Brown:** Well, I wonder. You have, I think, just identified a huge gap in the budget, because you have said you will be retiring some capabilities. Doesn't that mean, for example, in minesweeping, just to give one example, that you will need to replace them? There does not seem to be any allocation in this budget for replacing those capabilities that you are retiring.

Chair: I do not want to get into too much detail on capabilities at this point, because we will be looking into that later, but if you could answer the more general point, Sir Stephen, and then we need to move on, Sir Geoffrey.

Sir Stephen Lovegrove: The equipment programme that you are looking at is effectively the continuation of the programme of record, which was broadly set in 2015-16. The integrated review, which has not yet been published, will contain substantially different programme and capability choices from some of the ones that you can see here. I am afraid that we do not have the integrated review in front of us, and I am not at liberty to pre-empt Ministers' decisions on specific capability choices, but what you have in front of you will look significantly different when this session happens with my successor next year.

- Q15 **Sir Geoffrey Clifton-Brown:** One last short question from me: can you confirm that I am correct that, as the NAO has identified, this budget does not include any provision for replacing retired equipment such as the minesweeping capability that I have just cited, for example? Yes or no?

Sir Stephen Lovegrove: This one does not, but that does not mean to say that the next one will not either.

Sir Geoffrey Clifton-Brown: So we have to wait until next year's to know what equipment will be replaced?

Chair: We will get into the detail on this as we go on. Let us go to Sir Bernard Jenkin MP.

- Q16 **Sir Bernard Jenkin:** Sir Stephen, could you clarify a detail about the Northern Ireland protocol? It has strayed into the media, with the suggestion that because there is now a de facto customs frontier between Northern Ireland and GB, we are required to notify the Commission if we are transferring arms or munitions across the frontier. What is the MOD's understanding of that situation?

Sir Stephen Lovegrove: I am not aware that any of our operational activity around the border and the frontier will be impacted at all as a result of that. I will look into that further to absolutely clarify that point for



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you, Sir Bernard, but I have been assured that no operational impacts will be felt.

- Q17 **Sir Bernard Jenkin:** That was not actually the question. The question was about whether you are required to notify the Commission if you transfer arms and munitions from GB.

Sir Stephen Lovegrove: I will have to get back to you on that. I am not aware of the answer to that question specifically.

- Q18 **Sir Bernard Jenkin:** My expectation, and yours I expect, is that any arms movements within the United Kingdom are a matter of our sovereign right and are not required to be notified to anybody. That would be my view. Would it be yours?

Sir Stephen Lovegrove: I would just like to get back to you with the specific details, if I may, Sir Bernard.

Sir Bernard Jenkin: The very fact that you have to pause on that—

Chair: Sir Stephen, if you are able to get backchannel information on that before the end of the hearing, we will come back to it at the end if you have the answer. We will come and check if you have it—it would be good to nail it.

- Q19 **Sir Bernard Jenkin:** Your hesitancy speaks volumes. On the question of the MOD's military assistance of civil authority for covid, the Secretary of State made a statement last month saying that there were about 4,700 armed forces personnel deployed, and another 10,000 standing by. What is the situation now, please?

Sir Stephen Lovegrove: The situation is that marginally more—just over 5,000—are now deployed. We have three main areas where we are assisting the national effort. The first is with the NHS itself, where we have deployed 1,600 medical professionals, 720 combat medics, and 850 general duties personnel. In the bucket of things that we are doing is test and trace, where we have been assisting with community testing programmes across the country, most notably in Liverpool and Manchester, where thousands are being deployed. We have also given some assistance on the vaccine, with 42 quick-reaction forces ready to assist local vaccination efforts. All the personnel in those quick-reaction forces are themselves vaccinated and sent around the country to where the need is most.

- Q20 **Sir Bernard Jenkin:** How many of the 42 QRFs are deployed?

Sir Stephen Lovegrove: Right now, I think just over half of them. There are 42. I can double-check, but I think it is just over half of them. We need to keep some back on a contingent basis, obviously, in case things pop up.

- Q21 **Sir Bernard Jenkin:** There is a terrific team in Clacton doing a great job. Thank you very much for that. Can you split the balance of your



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deployment between England and Scotland? How much is deployed in Scotland?

Sir Stephen Lovegrove: I don't know the answer to that. I do know that there is significant—*[Inaudible]*—at Scotland, actually, and we are completely agnostic as to which part of the United Kingdom—*[Inaudible.]* I can get you the specific details.

Q22 **Sir Bernard Jenkin:** That would be very kind. Finally, on test and trace, you talk about supporting testing, but are the armed forces assisting with tracing in any way?

Sir Stephen Lovegrove: Not particularly, and certainly not at mass. We have been doing quite a lot on the planning side, but those are individuals. The Chief of the Defence Staff and I have a bi-weekly call with Sir Chris Wormald, Simon Stevens and others in the health system to work out whether there are other areas in which the Defence machine, as a whole, could be helpful. Sometimes that is more about mass deployment; the combat medics are an example of that. Sometimes that is about specific individuals doing very specific things. We did a red teaming exercise on aspects of the vaccine programme, for instance, the other day, involving a couple of our better planners.

Sir Bernard Jenkin: Thank you very much. I had a very reassuring call—

Chair: A quick question from Tobias Ellwood MP.

Q23 **Mr Ellwood:** Thank you, Sir Stephen, and congratulations on your new role. This may be helpful, on the munitions movements. I think there is a NATO agreement with the EU that might be worth looking into to help solve that question. My question is actually just to do with the vaccinations and our becoming a vaccinated island. We are doing incredibly well here. You will be aware that we stepped forward during the Ebola crisis to help other countries, with RFA Argus, our hospital ship. I raised that point with the Defence Secretary and the Health Secretary. I hope that is something that the MOD can do to start helping Commonwealth and Caribbean countries—using our armed forces to roll out the vaccine worldwide.

Sir Stephen Lovegrove: I hope so too. The vaccine effort at the moment is defence's main effort, as it is the national effort. There is little point, once we have vaccinated people on these islands, in hoping that that will be the end of the exercise. The whole globe needs to be part of it, and we know that we will need to play our part.

Chair: Thank you very much. We now turn to Nick Smith MP.

Q24 **Nick Smith:** Thank you, Chair. Best wishes in your new role, Sir Stephen.

Sir Stephen Lovegrove: Thank you.

Nick Smith: I want to take up the line of questioning we left after Peter Grant. We of course look forward to the integrated review. However, in 2010 and 2015, CSRs accompanied those reviews, so there were



resources behind those reviews, and they gave a clear sight of the direction of travel. That is not the case this time. It is good that you had the £16.5 billion allocated in the autumn, but it appears that much of that money is already spent. In the meantime, the present equipment plan, according to our estimates, has a shortfall of circa £7 billion. How will you make up that shortfall for the 2020-2030 equipment plan? I am particularly worried about things like the Ajax project, which is important to south Wales. That may be cut or left on the shelf. Can you give us the broader picture and a specific answer to what is happening with Ajax, please?

Sir Stephen Lovegrove: I will hand over to Air Marshal Knighton on Ajax, but the broader picture is that the £16.5 billion that the Prime Minister announced last year was avowedly, in his own words, partly to deal with the financial difficulties that the Ministry of Defence has found itself in for the last five years and which [*Inaudible.*] and partly to invest in new and battle-winning technologies for the future.

There is no question that this is not £16.5 billion that is being poured on to an already balanced budget and therefore it is all going to go on new and revolutionary kit. That is simply not going to happen. Some of it will have to go to dealing with the problems that we face.

However, in the process of the integrated review, Ministers will be in a position to take a series of decisions about capability enhancements and—yes—capability reductions in certain areas, which will go a very long way to getting this budget back into balance in any event. Then the £16.5 billion can go on top of that, which will then get the programme absolutely back into balance and also provide the certainty of funding for new capabilities that we all require. It is probably best to pass over to Air Marshal Knighton on the specifics of the Ajax point.

Air Marshal Knighton: Mr Smith, it is worth noting that Ajax, outside the nuclear programme, is actually the biggest spending programme we have in Defence. You will know the factory well and the work going on there to build the vehicles is progressing extremely well. We expect to hit key milestones this year and there is absolutely no question of that programme being cancelled. This is going to be the most modern vehicle that the Army will have when it comes into service.

Q25 **Nick Smith:** Thank you, Air Marshal. I looked at the paper before this morning's meeting and there is an emphasis on the multi-criteria decision analysis exercise. We know that, at the same time, a defence and security industrial strategy is going to be tabled too. When will parliamentarians have sight of that information so that we can be informed about the different decisions that are going to have to be made to balance the budget on the Equipment Plan?

Sir Stephen Lovegrove: The specific programmes that we are going to pursue and those that we are not going to pursue will come out around the time of the integrated review. As I say, at the same time we will be seeking to publish the defence and security industrial strategy and we will



be giving, in any event, in some form, considerably more information about the specific Defence programmes, over and above both the defence and security industrial strategy and the integrated review, on roughly the same timetable.

- Q26 **Nick Smith:** Thank you for that, Sir Stephen. I have a hangover question on the wider point about the budget for the Equipment Plan. Because the budget has been in disarray for four years in a row, can you tell us more about the uncertainties ahead that could affect the delivery of the plan?

Sir Stephen Lovegrove: That is a very interesting question. We spend about 15% of our Equipment Plan in either euros or dollars. The global economic position is a complicated one; I think you can assume that forex is going to continue to be something that we are going to have to pay very close attention to. That could go either way, but it is something that we continue to exercise considerable vigilance over.

The main thing, though, that I would say is that there are, in at least two areas—the two biggest areas, actually, of our expenditure in the equipment plan—very significant debts that have been built up over a number of years that we are going to have to deal with and renew. The two areas that I would highlight would be in our communications systems and in the nuclear enterprise. As you know, the nuclear enterprise is in the process of being renewed across the board: the submarines, the warhead—pretty much every single aspect of it. These are enormous, very complicated programmes, and we will have to be very careful about watching increases there.

I am afraid that the other big area—the second biggest area in the equipment programme, after submarines—is IT and communications systems. There we have an extraordinarily complicated technological debt, which is very difficult to unravel, and which we need to unravel because we are moving into warfare in a data and information age. That, again, is an area where there is definitely potential for costs to spiral, and we have seen a bit of that this year.

- Q27 **Nick Smith:** Thank you for that answer. The Committee will look forward to you better understanding those last two topics in particular.

Can I take you back to forex and the provision of the Lightning II aircraft for the aircraft carriers? Our last report on those pointed to, I think, an £800 million deficit over time—increased cost—because of forex going in the wrong direction. Have you updated that? Please could you let us know if we are going to have to provide even more money to buy the Lightning II aircraft that you have made provision for already.

Sir Stephen Lovegrove: I think Mr Pate is probably going to be in a better position to answer that question, or possibly even Sir Simon; I am not sure. Certainly, one of them.

Charlie Pate: I can come in on that. The latest forecast cost of the Lightning programme that is in our EP20 report shows that, actually, against the approval of around £10.2 billion—that is the approved costs



that we have—we are currently forecasting £8.9 billion, so we are substantially under the overall budget that we have set aside for the F-35s at this stage. That reflects three things. There is an increase in foreign exchange costs as part of that, but a substantial review of risks that the SRO and the DE&S have carried out has reduced costs. Also, we have had overall reduced costings from the joint programme office in the States.

That is actually a continuing theme with this programme: the costs of the aircraft are reducing. Our focus on the F-35s really remains on the support costs, and working with industry and partner nations on those, making sure that we can restrain those as much as possible.

Q28 Mr Ellwood: Can I probe a bit further into the difference between the amount of money allocated back in November—very welcome though it would be—and the shortfall that you are currently facing? I welcome your comment that you built up debts over the years. There is still a disparity, and we need to be careful with disinformation and perhaps spin that £16.5 billion is rolled out to say, “Welcome, welcome, welcome,” but we still have a shortfall. That is to Richard Knighton, please.

Air Marshal Knighton: The first thing I would say is that the £16.5 billion is enormously welcome. It represents a 10% increase in the defence budget next year. I have been in the Air Force 30 years this year, and we have never seen that level of increased investment in defence. It is not a matter of spin; it is absolutely welcome.

As Sir Stephen has said—this Committee and the NAO Report have commented on this—there is risk in our programme and there is a level of underfunding that will need to be addressed. As the Prime Minister said in his speech in November, some of the £16.5 billion will need to go to address those risks and that shortfall in our funding.

We talk about the £16.5 billion, but we should remember that that is actually only over the first four years. We have been given a planning assumption that we should use in the subsequent six years of the decade by the Treasury. That will be the basis on which we will be establishing the equipment plan, as we go through the integrated review and publish more details about defence. That is in excess of £30 billion over those 10 years. It gives us an opportunity to get after the challenges and risks that we have in the programme, to deal with some of that technology debt that Sir Stephen described, and to start to see that shift in our capability, to make it more relevant to the kind of threats we will face over this decade and into the subsequent decade.

Q29 Mr Ellwood: My concern is that without that integrated review—which allows you to define your defence posture, because you determine your ambitions, your role on the international stage, your commitments and the threats on the horizon—we will be making plans over a 10-year period for equipment about which we do not know where and in what context it will be used, because you have not been given that clarity of direction from the integrated review itself.



Air Marshal Knighton: There are a couple of things I would offer in answer to that question. First, as Sir Stephen said, we are expecting the integrated review to be published soon. Defence and defence officials have been closely engaged on the development of that work.

As we said to the Committee before, we have been developing our thinking, particularly from a defence perspective on the role of the military instruments, on the priorities for new capability and for our posture over quite a long period of time. We have been through the National Security Capability Review. We published a White Paper on the Modernising Defence Programme. This is an iteration of that thinking and work, which have been applied to the development of the integrated review.

We think that defence and the central development of the integrated review are really well connected. We understand the kinds of priorities and roles that defence will have to undertake in the future. The development of the threat, particularly the increasing threat in space and from cyberspace, and our need to be able to defend against those things to continue to deter, are things that we really understand very clearly.

Finally, our conceptual response to that threat and environment is laid out in the integrated operating concept that the Chief of the Defence Staff talked about last year, and which you will have heard the Defence Secretary talk about. That describes the key components around deterrence, posture and the need to integrate our capabilities more effectively, including across Whitehall, and the need to adapt faster. That is a really good vehicle to describe and help to shape the outcome of our thinking about the capabilities that we invest in.

Q30 **Mr Ellwood:** I understand that, but from the Defence Committee's perspective—we have studied this in detail—the biggest geopolitical long-term threat is China and its forward presence, encroaching and luring countries that are friends with us, nudging us out the way; so forward defence posture and upstream engagement are critical.

Today, because of the pressures that the study we are looking at today reveals, we are buying high-tech machinery but do not have enough to fulfil our original commitments. F-35s have been mentioned already. There is no budget that we see at the moment saying we will purchase any more than 48, but that is not enough to fulfil two aircraft carriers to sustain it; likewise other aspects, from Crowsnest and the Merlin to Type 26 and Type 31. Type 32 was mentioned as well.

These are all big promises that are being made. Ajax is an interesting development. But you are the first person to say that this will be committed to. So, lots of promises are being made—Typhoon, radar, Tempest and so forth—and yet what we are picking up is that if you want to fulfil any of these things, it will be rather niche and rather bespoke, but at a cost. One of those things will be the minehunters that have been mentioned, and potentially there is also a cut to 10,000 personnel in the Armed Forces.

These things are going to have a huge impact on our presence. We need



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to make the case that much as this budget is welcome—this increased funding—we need more than that, if we want to have that defence posture, surely.

Air Marshal Knighton: I know that Sir Stephen wants to come in, Chair, but if I may I will just make a couple of comments.

The first thing is that, regarding posture, one thing that I have said to your Committee, Mr Ellwood, and to the Public Accounts Committee is that one of the things that is very clear from our work over the last few years is that we need to invest in the boring stuff—the support and the spares packs that enable us to support helicopter deployments around the world. Having invested billions of taxpayers' money in new equipment, one of the first priorities is to make sure that we invest in sustaining and supporting all that equipment, so that we can use it and exploit it. That has been a key factor in our thinking about the investment plans.

As for the F-35 specifically, I suspect that this will come up later in the Committee, but, as we have said before, we know that we need to increase the number of F-35Bs, and the settlement gives us an opportunity to do that over this decade.

The final point, Chair, is just on minehunting capability and relates to the earlier question from one of the other members of the Committee. We have recently signed a deal with the French to manufacture autonomous minehunting capability. That will give us a world-beating capability into the future and that is how we will deal with the gap that would otherwise have been created. And that is really the leading edge of the commitments that we will make as a consequence of the settlement that we received in November. Thank you, Chair.

Sir Stephen Lovegrove: Very quickly, Mr Ellwood mentioned having a broadly forward presence, and having people out in the field and on the ground around the world. That is absolutely one of the core tenets of what we want to do in the future.

That is writ large, I think, in the integrated operating concept that Air Marshal Knighton just talked about. We want more of our people doing more things in more places more of the time. We want to have less contingent force held at readiness and we want to be more productive.

So we will invest, for instance, in defence staffs around the world; we will invest more in international liaison; and we will invest more in training teams in areas where we know it will make a difference and promote Britain's values and interests. The point that Mr Ellwood makes is very well understood and very well appreciated, and we will act in exactly the way that he would like us to.

Q31 **Mr Ellwood:** If I may just conclude this line of questioning, Chair, my concern is that these things are absolutely well-intentioned—it comes out in the strategic review from 2015 that you are to procure this equipment—but because we are not making the case to make sure that they are afforded, then everything is delayed. So, the Warrior upgrade is



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delayed; the Challenger upgrade has been delayed; the arrival of Boxer and even Ajax itself has been delayed. Crowsnest has been delayed. Even the support ships for the aircraft carrier have been delayed, or indeed the numbers get cut as well. And unless we both make the case to the Treasury, then we will not get more money if we continue simply to celebrate that £16.5 billion. Would you not agree with that?

Sir Stephen Lovegrove: I would agree with that. I can assure you that there has been no slacking in representing Defence's case to the Treasury by anybody on the line from Defence today. We understand and appreciate your support, and agree with the points that you make.

Chair: Thank you very much, Mr Ellwood. Back to Nick Smith MP. Over to you.

Q32 **Nick Smith:** I have just one specific question to put to the Air Marshal. This Committee went to see the Prince of Wales last summer. It is really great kit, but we were disappointed at that time that the US Marine Corps were providing so many F-35s to complement the carriers that we have at the moment. Air Marshal, how many F-35s will we have deployed by the end of this decade?

Air Marshal Knighton: We have on order 48 F-35Bs, and they will all be delivered by 2025. They will form the core of our operational fleet. We will have two operational squadrons plus an operational conversion unit—a training squadron. But as we have said before to the Committee, and as I mentioned earlier, we acknowledge that we need to increase that number. That is the part of the work we are doing at the moment with Ministers as we establish the plans on the basis of the settlement that we have achieved, but I would not want to get out in front of Ministers and preempt ministerial decisions. As we have said before, our expectation is that we will buy more F-35s in the second half of the next decade, to improve the capacity.

Q33 **Nick Smith:** Thank you for that. How many, and by when?

Air Marshal Knighton: Forgive me, Mr Smith, I am going to say the same thing again: Ministers have not decided. Until they do decide, I cannot tell you what that number will be.

Chair: As you know, Air Marshal, this Committee and Mr Ellwood's Committee have a strong interest in this issue, so we will keep asking that question. Mr Ellwood has a quick point on the issue of the F-35s, and then we'll go to Sir Bernard Jenkin.

Q34 **Mr Ellwood:** I hear the pressures that you are under, but given that the next batch of F-35s will not appear until the next half of the next decade, when technology itself and even protocols, doctrines and capabilities will have changed fundamentally, it seems very bizarre that we are not able to support the aircraft carriers now with the full complement; 48 is not even enough to fill two aircraft carriers.

Chair: I think this point is worth exploring. Air Marshal Knighton, briefly.



Air Marshal Knighton: Two points, if I may, Chair. The first is to reinforce the point that Sir Bernard has made previously: we will generate greater value for money for our investment, particularly the non-recurring investment we made in the F-35 programme, as we increase the numbers. That, alongside the capacity that increased numbers will bring to our aircraft carrier capability is driving our thinking on the numbers that we should buy in the long term.

On Mr Ellwood's point about technology, one of the points about the F-35 is that it is able to be constantly upgraded. As we move to a model in which our capability is increasingly defined by software, keeping the software updated and the capability updated through developments in software is how we will keep that relevant. The F-35 will still be a world-beating capability well into the 2030s.

Chair: Thank you very much. As I say, this Committee and Mr Ellwood's, as he has just demonstrated, have an abiding interest in this issue and a strong interest in the carrier strike group.

Q35 **Sir Bernard Jenkin:** We were just reflecting at the beginning of this session on how familiar this NAO Report is, and on how we seem to go around the same houses every time. First of all, I commend your honesty. It is much easier for us to make Ministers accountable when you just say, "That is a decision for Ministers. That is just the process." I think we should have more of that from officials, rather than their pretending to carry the can for decisions they have not made. I remember that we never bought the number of Apaches that we were meant to buy. We never bought the number of Typhoons that we were meant to buy. We never bought the number of Dauntless destroyers that we were meant to buy. It is always the same case. It feels as though we are in the same position again, and we are going to end up buying smaller numbers than originally envisaged. Is this just how it is? Is it ever going to change? It is very difficult for Parliament to make anything accountable if constantly the commitments given just slip through our fingers.

Sir Stephen Lovegrove: The international—*[Inaudible.]*—equipment purchases in the defence world is characterised precisely by what you have just said. Governments find it, for a variety of reasons, some good—*[Inaudible.]*—eventually find the money to buy the number and quantity of bits of kit that they announce that they are going to buy. That is not something that is peculiar to the UK. It is the same in America. It is the same in France. It is the same in Germany. I think there are a lot of different reasons for that, and not all of them are to do with people over-promising, or to do with entryism—all those typical criticisms of defence procurement.

I would identify a couple. First, we still do not have a very good understanding of defence inflation, which is clearly different from inflation in the rest of the economy and has different drivers. I think there is an analytical job of work to be done to understand why that is the case and whether there are better ways of managing or predicting it.



Secondly—this is probably the most important thing—these are immensely long-term projects. We will be buying the F-35s for another 20 years or so, and they have been in the pipes for 15. In the course of projects such as that, things change. In 2015, the SDSR said that we were to buy 138 F-35Bs; there was no mention of the future combat air system—Tempest, as it is more snappily known. Things change in the course of these very long-term programmes. Different capabilities come along that render things that you have yet to buy possibly obsolete, or perhaps you need fewer of them, or the threats change. There is always going to be, I think, a degree of flux, which is difficult to predict, in a defence procurement programme of this scale and tenor.

- Q36 **Sir Bernard Jenkin:** Of course, accompanying this is the constant billions-of-pounds shortfall in the budget to fund the programme that you are committed to. That seems to be a constant feature, and the extra money arriving is not intended to fill that gap; it is to get you to buy different, new stuff. How are you going to resolve that, or is it just another feature of being the permanent secretary in the MOD that you just have to pretend all the time that you are going to get a quart out of a pint pot?

Chair: Sir Stephen, as you are nearly at your end game, you can answer that very honestly, I hope.

Sir Stephen Lovegrove: The task we are engaged with right now is, with the benefit of this additional funding, to look at the programme of record, to take things out of it that we think that we have less need of at the moment, and to reduce the deficit that the NAO has correctly identified. That is No. 1. No. 2 is then to apply some of the additional funds that we have got in order to fill that deficit, which I hope will be as small as possible, and then No. 3 is to identify new capabilities that are going to be of more use to our fighting forces in the coming years. All those three things actually happen at the same time. That is the exercise we are engaged on at the moment.

This year is the moment when we will be able—I very, very much hope—to get this into something much more like a proper balance. That is something that we have not had for the last five years. There will definitely be, though, tensions and flux, for some of the reasons that I mentioned in my previous answer, so I suspect that my successor is going to be wrestling with things—and no doubt cursing me on occasion—but we are in a much, much, much better position to get this whole programme into balance now than we have been for some years.

- Q37 **Sir Bernard Jenkin:** What is the MOD actually doing better to understand defence costs inflation? You have been sitting there for a long time and you do not understand it now. What are you leaving behind so that your successor will understand it better?

Sir Stephen Lovegrove: Well, we do understand it a bit. I think probably the answer—*[Laughter.]*

Chair: That fills us with great confidence, Sir Stephen!



Sir Stephen Lovegrove: Others on the line will have views on this.

Sir Bernard Jenkin: I have my views.

Sir Stephen Lovegrove: What is probably the case is that we do not anticipate its effects on our programme in as sophisticated a way as we need to. The way in which we deal with contingency is probably at the heart of this.

Q38 **Sir Bernard Jenkin:** We constantly make the best the enemy of the adequate, and the extra 30% of cost buys you capability that you never use.

Sir Stephen Lovegrove: That has historically been a picture. I think we are a long way away from doing that at the moment. The Type 31 acquisition is a very good example of where we have decided to go for something which is at slightly the more utilitarian end of the scale rather than the absolutely super-sophisticated exquisite capability, as our military colleagues would call it. It certainly has been a problem, and it is something we are trying to eradicate, but, as I say, contingency—how we deal with contingency and how we set contingency—is probably quite a long way away from best practice. Others on the line will certainly have a view on this particular matter.

Chair: That is at least honest. We will go to Tobias Ellwood about how we meet the funding shortfall.

Q39 **Mr Ellwood:** Sir Stephen, you mentioned that you may have to cut things to manage the budget. Can you expand a bit more on which projects are likely to be cut?

Sir Stephen Lovegrove: I am afraid I cannot really do that in advance of final decisions by Ministers. I do know that the areas of prioritisation we will be going for will be the new domains in cyber and in space. We will be investing a lot in autonomous systems. We will be investing a lot in our networks, and we will be investing a great deal in science and technology and research and development. Not absolutely everything can be afforded—there will be reductions in certain areas—but I am afraid I am not in a position to give you exactly the shape of that at the moment, in advance of ministerial decisions.

Q40 **Mr Ellwood:** But there is a concern that if you move to more autonomous systems, personnel will be affected. Can you guarantee that at least the numbers in the armed forces will remain as they were intended in the last SDSR?

Sir Stephen Lovegrove: I would really defer to Ministers on that particular point. No final decisions have been taken. I do know that the Secretary of State is absolutely committed to an approach about outputs rather than inputs. He is keen to make sure that what we have—whether it be people, kit, or indeed the networks and support networks that lie behind those—enables us to be effective where we need to be effective. That is what is driving him. rather than specific input measures.



Q41 **Mr Ellwood:** How do you then move to a position whereby you have the ability to have the additional headroom to absorb the unexpected changes or increased costs that the last four NAO Reports have revealed?

Sir Stephen Lovegrove: That goes back to my previous answer about contingency. We have found ourselves being squeezed harder and harder, and one of the consequences of that is that contingency has been by and large taken out of the programme. We need to build some contingency back into it; we need to build some margin. This is particularly the case in nuclear, and I have had a lot of conversations with the director general of nuclear and the Vice-Chief, who is very involved in that. We need to have some margin that will allow us to take the right decisions without being forced down routes that are about immediate, very, very short-term—too short-term—value-for-money and money-saving measures. Mr Pate may have something to add on this.

Chair: I see Mr Pate indicating. Over to you.

Charlie Pate: We take various assessments of the risks we have. We have £13 billion embedded into our project costings for projects and senior responsible owners to manage risk that arises from delivering their projects. Our independent cost assessors, as is in the Report, have assessed that we have potentially £3.9 billion of risk over and above what we have included in the budgets. Set against that, even in the Equipment Plan for 2020 we have a contingency of over £5 billion, but as Sir Stephen says, as we go through the implications of the spending review and into Equipment Plan 2021, we will want to assess—we are doing that—exactly how much contingency is appropriate, both for the conventional Equipment Plan and for the Dreadnought contingency arrangements that we have with the Treasury.

Q42 **Sir Geoffrey Clifton-Brown:** May I stick with you, Mr Pate? I have a technical question, following up Mr Smith's questions. In paragraph 19 of the NAO Report on page 11 it says that this Equipment Plan "assumed" that foreign exchange movements would be funded by the Treasury. Yet, in earlier replies you were building forex costs, for example into the F-35 project. Which is it? Does the MOD fund forex or the Treasury?

Charlie Pate: This particular reference in paragraph 19 of the NAO Report is about the in-year position. In setting this year's budget we made two assumptions, with the agreement of the Treasury. One is that we would allocate out all the contingency that I hold centrally on behalf of the Department. We allocated that out to the TLBs and that went into budgets.

The second is that we saw that there was a risk on foreign exchange through the year, but we wouldn't look to budget for that at the start of the year and we would continue to discuss with Treasury how we handled that through the year. You have seen that sterling has fluctuated through the year and we are in discussion with the Treasury as we speak on the impact of that for the supplementary estimates and our final outturn for the year.



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So, paragraph 19 is very much about the in-year position. What we were talking about before was the contingency that we hold for foreign exchange for the 10-year plan.

- Q43 Sir Geoffrey Clifton-Brown:** This is a fundamental question. It is a very easy question, but I would like a precise answer. The NAO makes the point that this Equipment Plan is underfunded in the five years by £4 billion a year. It just so happens that that is quite close to the £16.5 billion that you have recently been granted by the expenditure review. How much of that £16.5 billion will go into shoring up the shortfall of this plan and how much is new money to go into new projects, such as cyber and space?

Charlie Pate: The difference in the budget in the SR years is not £4 billion a year; it is £6.6 billion over the four SR years. That is what the Report shows. As Sir Stephen explained earlier, there are three elements that we are still assessing before we publish the integrated review and the defence approach to that, and then we will put this in the Equipment Plan 2021. They are what we are going to invest in new things, going forward; where we need to disinvest. The Prime Minister was very clear when he announced the £16.5 billion that there are less useful capabilities that we are going to have to retire or reduce in number; and how we put all of that together. I can't, at this stage, give you a precise answer as to what goes in there, because we need to take those different elements into account before we show what the whole plan looks like.

- Q44 Sir Geoffrey Clifton-Brown:** When you made the case to the Treasury for this additional £16.5 billion, on what basis did you make it? What did you say that that money was going to be used for?

Charlie Pate: We were very clear that we had a gap in our funding, as against the current programme of records that existed since 2015. We showed that and the Equipment Plan, which you have in front of you today, was part of that evidence. It is a good proportion of the defence budget, but it is not the whole amount.

We took that into negotiations with the Treasury, as part of the gap, and we have come out with the £16.5 billion. As I say, within that we are going to have to invest in new equipment going forward, but we do need to tackle the gaps that we have across the defence budget.

- Q45 Sir Geoffrey Clifton-Brown:** I repeat the question because I am not getting the answer:

- Q46 Sir Geoffrey Clifton-Brown:** I repeat the question because I am not getting the answer: how much of this £16.5 billion will go on the existing budget and how much into new equipment? It is a very simple question.

Charlie Pate: I understand the question. I am afraid that I can't give you a number at this stage because of those different elements, particularly when we are assessing the basis of the current Plan. The Prime Minister was clear in his announcement that the current Plan will change, going into next year's Plan. We have to price that first, then I can tell you how



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much has gone in, what the budget gap was at that point and how much of the £16.5 billion we have had to put into these current programmes.

- Q47 **Sir Geoffrey Clifton-Brown:** If you can't give me an answer to that, let me try the question in a different way. You have a very ambitious Plan, including cyber and space, which sound like very expensive projects—unmanned vehicles, unmanned aircraft and so on. Are those projects anywhere near affordable with the £16.5 billion that you have been granted?

Charlie Pate: The £16.5 billion covers the next four years, and in those four years we will continue the investment that we are already making in both those areas and in our capabilities across all—

- Q48 **Sir Geoffrey Clifton-Brown:** You still haven't answered the question. Is it sufficient?

Charlie Pate: What I was going to say is that we need to start those investments. As Sir Stephen said, these are long-term investments. Over the 10 years, if you take the planning assumption from the final year, we have more money there. Indeed, the NAO Report shows that there is headroom in the later years of the Equipment Plan for us to invest further in these kinds of capability. There is a limit to how much industry can respond in some of these areas in the short term. We have to build that realism into the plans as well. We can't just put all the money out straightaway. There is an understanding of the priorities that we need and what industry can deliver in building up this Plan.

- Q49 **Sir Geoffrey Clifton-Brown:** So, summarising the position, is it this? This Plan as presented in this paper is unaffordable in the first five years. It looks as though the whole £16.5 billion will have to go into affording what is in this Plan. What happens in the final five years? Where does the money come from to actually procure the whole of this Plan?

Charlie Pate: The first point is that I'm afraid I don't agree that the whole of the £16.5 billion will have to go into delivering this Plan. The NAO Report shows that there is a gap of £6.6 billion on these current plans over the four years that the £16.5 billion is provided for, but that is on these current plans. As I have been explaining, and as Sir Stephen has explained, the plans need to change, and we are looking at adjusting them to fit the current priorities of the Government. That will be set out within the strategic framework of the integrated review.

Going forward, we take an assumption as to the budget for the full 10 years. Of course, we don't have that confirmed with the Treasury, but they have agreed with us that we can plan on the basis of a 0.5% increase on inflation year on year from year 4. That gives us significant headroom, as we have had in earlier versions of the Plan, so that we can take forward these key investments. There are some that you have explained and others that Air Marshal Knighton was setting out earlier.

- Q50 **Sir Geoffrey Clifton-Brown:** There are some significant items with respect to this Plan that this Committee has taken an interest in, which



are not covered by the Plan—things like the decommissioning of nuclear submarines and defence housing provision. Where is the money coming from for these projects?

Charlie Pate: The current requirement for the decommissioning of submarines is within this Plan. The housing requirement—there was the NAO Report yesterday, and we have a hearing in due course—is another element of the budget, which is the infrastructure plan. That is why this whole approach is taking some time from the spending review to announcing the full outcome of that. We have to take into account all the different elements of the defence budget. The three main elements are the Equipment Plan, what we spend on people and activity, and what we spend on infrastructure. We have to balance all those so there is a balanced total budget going forward.

Q51 **Sir Geoffrey Clifton-Brown:** When are we likely to see the infrastructure plan?

Charlie Pate: We are working on our annual budgeting cycle. We do that every year, as the name implies. We are currently doing that. As part of the integrated review, I expect defence to come forward, setting out our overall plan for how we are managing the next four years. Then the Equipment Plan will set out the next 10 years, as is normal.

Q52 **Sir Geoffrey Clifton-Brown:** The question was, when will we see the infrastructure plan?

Charlie Pate: In line with the integrated review, which we are expecting in the spring at some point.

Q53 **Sir Geoffrey Clifton-Brown:** The two will be together?

Charlie Pate: We are expecting to announce the defence details very closely to the integrated review, yes.

Q54 **Shaun Bailey:** Following on from that line of questioning, Sir Stephen, earlier in the session you said that you had a good idea of how the £16 billion would be used. Mr Pate, you have just said basically that you are not sure. Which one is it?

Sir Stephen Lovegrove: I don't think Mr Pate quite said that. We are not in a position to give very specific details about levels of very specific investments, or indeed very specific levels of disinvestment, ahead of final ministerial decisions, but I can assure you that the Treasury and the Prime Minister would not have granted us £16.5 billion for the next four years on the basis that we had no idea of broadly the areas that we needed to invest in and, indeed, some of the areas where we needed to make less investment. Those are well understood. Final details are with Ministers, and it would be wrong of us to pre-empt those.

Q55 **Shaun Bailey:** Effectively, what we are saying is that, until Ministers have announced that, we cannot really say where that money is going. Am I understanding you correctly, Sir Stephen? Is that effectively what you are saying?



Sir Stephen Lovegrove: In detail—yes, I am afraid that is the case. The Secretary of State and the Prime Minister have set out some pretty broad directions of travel. To cover those in 15 seconds, there will be a lot of investment in R and D. There will be more investment in space. There will be more investment in cyber. There will be the continued renewal of the nuclear enterprise. There is a very big commitment towards the future combat air system. We have made statements about autonomous systems. We have made statements about expanding the defence network across the globe. Equally, I am aware that those are directions of travel. Specific equipment programmes and specific levels of personnel deployment will have to wait until Ministers have made their final determinations, I'm afraid.

- Q56 **Shaun Bailey:** Okay, but following on from the points that Sir Geoffrey was raising, we have an estimated potential overspend or allocation—however you want to word it—that is obviously going to have to be dealt with somehow. Surely the whole £16 billion is not going to be used on projects like that. Surely an element of the shortfall is going to have to be consumed by it. How are you modelling that, picking up on what Sir Geoffrey was saying before?

Sir Stephen Lovegrove: That is absolutely right. The whole of the £16.5 billion is not, as I said before, new money going on a balanced budget. It is not going on a balanced budget. The budget is out of balance at the moment. What we are engaged in at the moment is getting the budget as much into balance as we can. That will involve certain elements of reduction in certain areas, and when we see what is left, as it were, we will then take a view on how much of the new capabilities we can afford. That is an iterative process. As I said before, all those things happen in a very interlocking and interconnected way, but you are quite right to say that the £16.5 billion is neither going all on new stuff nor going all on fixing the problems that we have. It will go on a mixture of the two, and the balance between those is a function of the many individual decisions that Ministers are making now.

- Q57 **Shaun Bailey:** Do you think it is accurate, then, to refer to this as a £16.5 billion increase, given that part of the money is going to tackle a shortfall? The reality is that it isn't £16.5 billion, is it?

Sir Stephen Lovegrove: It is £16.5 billion. As Air Marshal Knighton said, it represents a 10% increase in the defence budget for the next four years, which is really extraordinarily substantial, particularly against the backdrop of the economic position that the country finds itself in at the moment. What it is not is a £16.5 billion increase on top of a balanced budget, because it is not a balanced budget. The NAO is very clear, the PAC is very clear, and we have been very clear ourselves in these and other public hearings, with Mr Ellwood and others, that this is not a balanced budget. We have never pretended that it has been.

- Q58 **Shaun Bailey:** Chair, could I briefly talk about how the Department is balancing that budget? Sir Stephen, the National Audit Office Report, at paragraph 1.25, states, "The Department is confident it has mature plans



to achieve 66% of its savings target. It assumes that it will realise all of these savings, despite TLBs reducing the savings they are confident of achieving". Can I ask how confident is confident, and how are you modelling that confidence in achieving these savings?

Sir Stephen Lovegrove: How confident is confident? That is a very good question. One of the things we have been working on—I will hand over to Mr Pate in a minute; he is a real expert on this—and modelling really hard is the maturity levels of the various savings an efficiency target has got. There are thousands of them. It is not one big number that we can have a global view on. There are thousands of them, and each single initiative needs to be assessed in terms of its likelihood of delivery, the scale of its delivery, the pace of its delivery, what the knock-on effects of its delivery might be. We are gradually—and it is gradual—maturing the basis we do that on.

Our confidence levels are rising. In some instances—and indeed, you can see this in what the NAO has said—that has meant that our confidence in the overall efficiency target has actually reduced, because we are a bit less confident now we know more about them than we were before. But that is an ongoing process. There will never be a moment that anybody will be sitting in front of you to say that they are 100% confident about an absolutely maximalised efficiency and savings programme. That is just not the way that it is going to work. I should say, actually, that Sir Simon is responsible for a lot of the savings initiatives, so he will have, no doubt, some views on that as well. I will hand over to the real expert on this, but that is the overall picture.

Charlie Pate: To emphasise Sir Stephen's point, we do grade our efficiencies by maturity level, and we have got a further £1 billion over this year into that top maturity level, so we now have really high confidence on two thirds of the targets that we have embedded in the Equipment Plan. But there are two further comments I would make—that we don't want our frontline commands to be sitting back, so it is right, in my view, that the targets that we do have on each of them are stretching, and that there will, therefore, be gaps within the budget, because we need them to keep focused on this area. We also have a series of central programmes that we are running because we need to take a cross-defence view, particularly in our support work and things like how we forecast and resource planning for support for equipment servicing schedules. We are planning on carrying them out more efficiently. That is a cross-departmental programme. As we get more confident in that, the savings from it will go against these targets. So, I think, with those two further points, it is right that we have challenging targets within the Equipment Plan. It will always be an area of focus.

Q59 **Shaun Bailey:** Mr Pate, just so I am sure about this, that figure of 66%, then—that is moveable. Am I understanding that correctly?

Charlie Pate: Yes, of course, and we would hope, as it has over the last year, to continue to increase. As we get greater confidence in those individual specific plans, which we have many of, we continue to assess.



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Sometimes the efficiency plans that we have don't work out, so we will reassess again, but we would look to bring others in to fill the gaps that remain.

Sir Simon Bollom: If I can add to that and perhaps hopefully provide some confidence to Committee members that we have a robust plan, from where I sit, I think we have a much tighter way of looking at efficiencies in the programme. Just in my own organisation over the last four years—in fact, in ABC20, going forward, we have managed to find £5 billion of efficiencies that will be baked into the plan. Perhaps in the past we might have made mistakes where we did not have a robust audit of efficiencies going forward, but the process that we now have in place across defence, and which we have been using in DE&S for some years now, requires efficiencies to be identified. They then go through a rigorous scrutiny process, and ultimately, there is an audit pack that has to be produced to underpin efficiencies, signed off by professional accountancy staff.

From where I sit, we have a much a more robust system. I will give you an example. We have an efficiency hopper in DE&S, which I know other frontline commands have, and I have £3 billion in potential efficiencies there, but when you apply risk judgment against it in terms of the out-turn, it is probably going to be just over £1 billion. It is very much in our own interests to look carefully at those efficiencies and make a robust risk judgment.

Chair: I think, Sir Simon, that it has been the interest of the MOD to look at those efficiencies for a very long time. We will measure your words by the action.

Q60 **Shaun Bailey:** I have two final points. First, is there a risk that that 66% figure could go the other way? It sounds like, while it can go up, it can also go down. Secondly, Air Marshal Knighton, I appreciate that we have been talking a lot about figures, but let us talk about the personnel as well. If I were a leading aircraftman in the RAF, what would be impact of all this on me?

Charlie Pate: There is a risk that the efficiency number could go down, and we reflect that in our own Equipment Plan report. That is part of the range of the affordability challenge that we have. We have in the pipeline several billions-worth of efficiencies. We are developing those plans, and they are coming to maturity month by month, so we do have increased confidence, and that confidence has been built year by year by meeting those targets and increasing that 66% proportion.

One critical aspect—this is an element of the investment from the spending review—is that we do need to invest in driving out those efficiencies. That did not really happen in SR15, but we took forward very careful, detailed plans to the Treasury, which accepted that we needed to invest in areas such as the support programme that I described earlier, and our digital structures and processes. That will enable us to increase that efficiency delivery.



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Q61 Shaun Bailey: My final question is to Air Marshal Knighton. If I were a leading aircraftman in the RAF, what would be impact of all this on me? We have been talking about big figures today, but what about the individuals on the frontline?

Chair: Very good point, Mr Bailey.

Air Marshal Knighton: That is a really great question. It is an issue that I ask my team to think about all the time: what will this mean to the men and women of the armed forces? I really passionately believe that the future is very bright for the armed forces. The commitment that the Government have demonstrated to the importance of the armed forces, with the injection of the £16.5 billion of extra funding beyond the original budget plan, illustrates the importance that the Government place on the armed forces.

With the introduction to service of new capabilities, and with the opportunity for the armed forces to be more engaged and more involved around the world, it is a really exciting time for the young men and women, whether they join the Air Force, the Army or the Navy. I would say that, wouldn't I? But I do passionately believe that it is an exciting time, and I would encourage young men and women who have talent and ability to come and join the armed forces, where we will train them, educate them, and—

Chair: This is not a recruitment drive. Mr Bailey's point was about how you will know what to plan for their training if we do not have decisions on equipment. Isn't that right Mr Bailey?

Shaun Bailey: Yes.

Air Marshal Knighton: One of the things about the armed forces and our people is that they are incredibly adaptable. We have, throughout my career, seen multiple different types of aircraft retire or be brought into service.

Q62 Chair: You are basically saying that there is no particular knock-on effect to personnel of these indecisions—to put it indelicately, but perhaps accurately—on the Equipment Plan.

Air Marshal Knighton: Our people will inevitably need to be trained as we bring new equipment into service, and we expect in the future to require a different balance of skills—more digital skills, with people more able to do those sorts of things. That will change, but actually the system has always proven to be really adaptable, so I am really confident that we will be able to adapt quickly to the developing new capabilities.

Chair: No doubt we will look at personnel issues in more detail in future sessions. Thank you very much, Mr Bailey. We will go to Sir Geoffrey Clifton-Brown for a quick question, and then to Nick Smith.

Q63 Sir Geoffrey Clifton-Brown: A quick question. Mr Pate, you said that the Plan was £6.6 billion short in the first five years. I am trying to get to a figure as we sit here now—how much money is this 10-year Plan short



of?

Charlie Pate: The report is clear: £7.3 billion.

- Q64 **Sir Geoffrey Clifton-Brown:** Well, your own Cost Assurance and Analysis Service says that it could be up to £16.4 billion. Given the record of defence budgeting, it always tends to be the worst scenario, rather than the best. Where is this shortfall? Is it the £7.3 billion, in your view, or is it the £16.4 billion?

Charlie Pate: We always set out a range, given that we are looking 10 years ahead, and the report set out clearly the different elements of risk within that. Some of it is around the efficiency delivery, which we have just been discussing. Some of it is around foreign exchange movements. The other element is from the costing service, where they take a view on our project and challenge us on where there may be further risk to come out. As I said, we have a contingency, set against, particularly, the costing service's view of our risk position.

- Q65 **Sir Geoffrey Clifton-Brown:** But the Plan is fully allocated, in terms of equipment, so although there may be a contingency in there for the existing Equipment Plan, it does not contain any money for new equipment, does it?

Charlie Pate: There is a contingency. There is unallocated money within the Department over the 10 years. There is not in the initial years, which is one reason why we needed the £16.5 billion. If you then extrapolate that forward, as we have agreed with the Treasury, on an increasing basis—on the manifesto commitment of 0.5% above inflation—that gives us headroom in later years of the Plan for further investments beyond those that are already in the Plan. That will be set out in the integrated review, and then in the Equipment Plan for next year.

- Q66 **Nick Smith:** I want to pick up on the earlier questions from Mr Bailey to Mr Pate. Mr Pate, coming back to this issue of forecast efficiencies, it seemed to me that your answers were fuzzy. There are best intentions there, but we are looking for more stringent applications of policy. Why do you continue to ignore our recommendation not to include savings that you do not have clear plans to deliver?

Charlie Pate: I apologise if my previous answer was a bit fuzzy. What we are trying to do—I think we have improved over the year, which I think the NAO has reflected—is to have much clearer management information, a much clearer understanding of the efficiencies that we have in delivery and in planning and those that, as Sir Simon described, we have in the hopper but do not necessarily expect to come to fruition. We discount our expectation of the financial impact of those plans depending on our view of their maturity. Those in the hopper we are discounting very heavily; we are not budgeting on the basis of expecting a lot of those savings to come through. However, I go back to the point I made to Mr Bailey that it is right that we have challenging targets within the Equipment Plan. We need to be driving efficiencies through the armed forces to ensure that we provide value for money through the Equipment Plan.



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Q67 **Nick Smith:** It is good that you have targets, but you still insist on including savings that you do not have clear plans to deliver.

Charlie Pate: We have embedded those targets. I think that they are stretching but realistic. We have tested them again as part of the spending review negotiation with the Treasury. I think it is right that we have those in. There is a challenge—we have been very clear about that—in delivering those. The challenge is different in different years. As we go into the four years of the spending review, the plans look pretty realistic in meeting most of those targets.

Chair: We have some quick follow-ups from Tobias Ellwood MP.

Q68 **Mr Ellwood:** I want to turn to the operational side. I fear that if Sun Tzu were listening to this today, he might be turning in his grave at seeing so many commitments being made to exquisite bits of kit without first determining the short, medium and long-term threats. But that being what it is, let us just focus on some of the projects in the three services. Type 26—is that now costed? How many are we going to have over the next 10 years?

Air Marshal Knighton: It is costed. The plan is for eight; we have committed to three, which are in build. A decision around the commercial commitment to the second block of five is due in the next couple of years.

Q69 **Mr Ellwood:** So there is still a question mark over the funding of the remaining five.

Air Marshal Knighton: I did not say that, Mr Ellwood. We have budget lines set aside for the eight. We have not made a commercial commitment to it, but the money for the programme is in the Equipment Plan and in the numbers you have in front of you.

Q70 **Mr Ellwood:** That is very helpful. And the Type 31?

Air Marshal Knighton: Exactly the same situation. It is just not yet in build. That is at an earlier stage in its design life, but we are committed to that and on contract for that.

Q71 **Mr Ellwood:** The Prime Minister mentioned the Type 32 in his announcement of extra funds. Can you explain what that is, and is that funded?

Air Marshal Knighton: The short answer is that I cannot explain what it is, and it is not included in this Equipment Plan yet. What it references, though, is the Prime Minister's commitment to build more ships and to grow the surface fleet of the Navy. Type 32 could be just a follow-on of Type 31, or it could look somewhat different. We will go through a process of what is described in the defence terminology as the concept and assessment phase, which you will remember, Mr Ellwood. We will define the requirement, define what it needs to deliver and understand the timing associated with that. That work has not been done yet, but there is a very clear commitment from this Government to grow the size of the surface fleet, and Type 32 will be part of that wider programme.



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Q72 **Mr Ellwood:** Thank you. Turning to the land forces, we touched on Ajax and Boxer. I presume those numbers are the same, the costings are there and it is budgeted for. What about Warrior and Challenger upgrade?

Air Marshal Knighton: We have spoken before about Warrior and Challenger. We are not yet in a position with Warrior where we need to make another commercial decision or investment decision. Challenger is going through a process of decision making, and I anticipate that the long-term judgments around both Challenger and Warrior will come out with the integrated review, and the detailed plan that we set out as part of those announcements around the integrated review.

Q73 **Mr Ellwood:** We covered the F-35. What about the Typhoon radar upgrade?

Air Marshal Knighton: The NAO Report identified that as an unfunded aspiration. It is an important part of developing the capability of Typhoon, and it is one of those investments that we are considering as part of the integrated review.

Q74 **Mr Ellwood:** From a financial perspective, which is what this Committee focuses on, will cyber and space have their own separate budgets so that we will be able to analyse what they do, separate from the other three services?

Air Marshal Knighton: No is the short answer, in terms of having a completely separate budget. But will we be able to set out the investment plans around space and cyberspace? Yes, we will be able to do that. They will be managed through our top-level budget system within the Department.

Q75 **Mr Ellwood:** Maybe that is something—France and the United States, for example, have their own space commands—that we will venture into. My final question is to do with the personnel and the manning side of things. Will there be any changes on that front?

Air Marshal Knighton: I refer you to Sir Stephen's previous comments on the workforce.

Mr Ellwood: I thought I would try again.

Chair: We will come back. As you know, Mr Ellwood, this Committee will look, as does yours, into the personnel matters at some point in the future. I will now ask Mr Peter Grant to continue.

Q76 **Peter Grant:** Air Marshal Knighton, you will be aware that when the Prime Minister announced additional funding as part of the spending review, he also gave some quite detailed commitments to the House of Commons as to some of the new capabilities that that money will be used for. What assessment have you made of the cost of those commitments and of the timescale that would be required to deliver them?

Air Marshal Knighton: Did you have anything particular in mind, or was it a more general question?



Q77 Peter Grant: The Prime Minister made some specific promises to the House of Commons as part of the same statement. For example, he promised that our warships would all be armed with what he described as “directed energy weapons, destroying targets with inexhaustible lasers. For them, the phrase 'out of ammunition' will become redundant”. Is it part of the existing Equipment Plan to have all our warships using high directed energy lasers instead of conventional weapons? If not, what is the cost of adding that to the plan?

Air Marshal Knighton: We have a programme that we describe as the novel weapons programme, an element of which includes a number of different mechanisms to use directed energy as a mechanism for attacking or knocking out targets.

This technology is still relatively nascent. We can use laser energy or RF radio frequency energy, but what is quite clear to us is that the opportunity that this offers, in the way that the Prime Minister describes, for bottomless magazines and the idea that we would not need to re-ammunition because it would be delivered through electrical and electromagnetic energy, is a potentially significantly game-changing capability for delivery of defence capability.

We think that we are much closer now than we were—five or 10 years away from delivering this capability into the hands of soldiers, sailors and aviators, as a capability that will actually deliver the effect. We have plans that we understand to develop a laser weapon for ships and we intend, as part of our greater investment in research and development, to fund that work.

The overall cost of that, in terms of delivering it right across the fleet, is not yet known. I don't think that the Prime Minister was committing directly to fitting it to every warship; what he was painting was a future in which modern technology would transform the way we operate, and it will take many years for us to transition through that.

Q78 Peter Grant: What is your assessment of the cost of delivering on that and indeed on the other promises that the Prime Minister made when he announced this money? He also made promises about soldiers being protected from distant ambushes, because such ambushes would be detected by satellites or drones, and the response would be determined using artificial intelligence; it would then call up either an air strike, a concerted drone attack or a cyber attack to paralyse the enemy. What is the estimated cost, where we are now, of making that a reality for all our soldiers in the field?

Air Marshal Knighton: Some of those elements are already in the equipment programme. We already have aspects of a programme called dismounted situational awareness for our soldiers. We will invest in electronic warfare capabilities in the land domain and similarly for our ships, and in the air domain as well.

There are a whole range of things that are already in the Equipment Plan. There are some things that we will need to add, and that will need to be



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part of the consideration specifically around the integrated review, but also more generally as we think about development of capability into the future.

One of the key components of the integrated operating concept is this ability to adapt at pace, and one of the pieces of our analysis points to the pace of change of technology and the importance for us to exploit that technology in delivery of modern capability, and to do it faster than our adversaries.

The idea that we need to move away from is that we will have a fixed budget for 20 years and we will know exactly what is in it. Part of our thinking is about making sure that we leave some headroom in the budget to be able to exploit this technology as it evolves, so that we can deliver it more rapidly.

I cannot give you a very specific answer on what the Prime Minister was describing in terms of an impression of the future and what it might look like, rather than specific commitments to projects and programmes.

- Q79 **Peter Grant:** Thank you. May I move on to the permanent secretary, Sir Stephen Lovegrove? Sir Stephen, as the permanent secretary at the MOD, what status does the Prime Minister's statement have to you? When you hear him promising the House of Commons at the Dispatch Box that all these things will be delivered, does that mean that you immediately swing into action to deliver them, or do you have to wait for a specific instruction to start costing some of the programmes?

Sir Stephen Lovegrove: The Prime Minister mentioned all of those technologies because he had been extensively briefed on the kinds of things that we wanted to be able to do. He did not conjure them up out of nowhere; they are all realistic possibilities for the technologies that are going to help us to win battles in the future, and where we want to put money. He said, rightly, that we are going to put £6.5 billion into R and D, and S and T, over the coming period. That will help to mature some of these very cutting-edge technologies.

Some of them are going to be more successful than others. That is just in the nature of developing new technologies. Exactly how much money we are going to end up spending is obviously unclear at the moment, but is the commitment there to significantly double down on these new technologies, significantly get ahead of the curve, and put our fighting men and women in a better position with respect to their adversaries as a result of technological advancement? Absolutely, yes, it is. Exactly how much money there is going to be for these things will have to wait, because we will find out how effective they are going to be in due course.

- Q80 **Peter Grant:** I know that you have been asked a number of questions about how the additional £16.5 billion will be allocated, and you have explained that you are not able to tell us that just now. Who will take the final decision on how much of it is used to plug the funding gap, how much of it is genuinely new money, and when can members of this



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Committee, and indeed all Members of Parliament, expect to be given that information?

Sir Stephen Lovegrove: The decision will be taken collectively by the Prime Minister, the Chancellor and the Secretary of State for Defence, and obviously the Prime Minister will have the final say in these matters. We are aiming to publish at the same time as the integrated review, or very near to it, two other documents: the defence security industrial strategy and another specific defence publication, which will give more detail. It will be dependent on the exact timing of the integrated review.

Q81 **Sir Geoffrey Clifton-Brown:** Sir Stephen, may I ask about skills, particularly financial skills? Your Department has in its financial department only 41% of people who are professionally qualified in finance. The TLBs have financial shortages of a third in the Army and the Navy in their financial sections. How can we expect proper financial budgeting if you do not have the skills in the Department and the TLBs?

Sir Stephen Lovegrove: You can and should expect, and we would expect it of ourselves, for us to have proper financial budgeting and forecasting. Whether or not we have a gap in skills there, it should not be an excuse that we would put forward for not having robust forecasts. I would not want to pray that in aid at all.

Q82 **Sir Geoffrey Clifton-Brown:** Sir Stephen, that was a fairly opaque answer to a fairly simple question. Do you or do you not have sufficient financial skills in the Department and the TLBs?

Sir Stephen Lovegrove: We do not, but that does not immediately equate to the fact that I do not have confidence in our forecasts. There is always going to be a degree of variability in the forecasts, but it does not arise from that particular problem. What I do agree with you on, though, is that only having 41% is a number that I am not happy about. We have plans to improve that, but they are not moving as fast as I would like. Mr Pate has the detail on this, but he, too, is dissatisfied with that as a percentage.

Q83 **Sir Geoffrey Clifton-Brown:** So when do you expect to remedy this?

Sir Stephen Lovegrove: I will hand over to Mr Pate, if I may.

Charlie Pate: It will take time, Sir Geoffrey. There are two routes we can take. We can train up our own people and bring new people in. We have done that. We are increasing in the tens at the moment, year on year. I would say that the gaps that you highlighted in a couple of the TLBs are specifically in the parts of their finance teams focused on the Equipment Plan, and of course we have many tens, if not hundreds, of financiers, particularly in DE&S, working for Sir Simon on the Equipment Plan, who we rely on.

Q84 **Sir Geoffrey Clifton-Brown:** Okay. Permanent secretary, paragraph 2.13 states, "Because of the way the Department is organised under the delegated model", it cannot "access the TLBs' financial information" to challenge TLBs' judgments. What is wrong with the system if your people



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in the Department cannot challenge the TLBs in their financial judgments?

Sir Stephen Lovegrove: That is something that we are seeking to change even as we speak. Again, I will defer on the details to Mr Pate, but it is definitely the case that in today's world the head office main building, in a whole variety of areas, needs to be able to take a much more consolidated position. Again, that is something that needs to change.

Q85 **Sir Geoffrey Clifton-Brown:** The systems need to change, but you need to have the skills to be able to do it. Finally from me, because I must go for a question on the Floor of the House, a real indictment on the whole system is in paragraph 1.15: "Because the Department's evaluation of risk and uncertainty in the Plan's costs is not comprehensive, the full extent of risks may not be visible to decision-makers." That is a shocking indictment that you don't know the full extent of the risks in your Department, isn't it?

Sir Stephen Lovegrove: No, actually; I don't think it is. It is an enormous Department with many thousands of programmes. I believe that the vast, vast majority of the risks are available to us. No doubt there will be some that we are not sighted on. The NAO said, "may not be visible to decision-makers". That is a matter of opinion that I don't necessarily agree with.

Q86 **Sir Geoffrey Clifton-Brown:** This is a joint Report, Sir Stephen, isn't it?

Sir Stephen Lovegrove: We have agreed the facts. We have not agreed their opinions.

Chair: That is true, Sir Geoffrey.

Sir Geoffrey Clifton-Brown: Others may have something to say on that. Thank you very much, Sir Stephen, and thank you, Chair. I have to go.

Chair: I am now going to Sir Bernard Jenkin on this issue, and I ask Nick Smith to stand by.

Q87 **Sir Bernard Jenkin:** Just a quick reminder, Sir Stephen, that you were going to give us a definitive answer about the NIP. I hope you can do that.

Sir Stephen Lovegrove: I can do that now if you would like, Sir Bernard.

Chair: Thank you very much. This is the Northern Ireland protocol on munitions across the Northern Ireland-GB—I hesitate to say it—border.

Sir Stephen Lovegrove: I can confirm there is absolutely no requirement to notify the Commission about movements of defence personnel or equipment between Great Britain and Northern Ireland. There is a national security exemption in the Northern Irish protocol that applies, and we have taken steps to ensure that both the customs authorities and the contractors—most notably, Kuehne+Nagel—are supporting UK defence and are fully aware of that situation. I have just had confirmation from



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Kuehne+Nagel that moves are taking place, and Kuehne+Nagel are happy with the process.

Sir Bernard Jenkin: Excellent. I am glad we have shot that fox.

Sir Stephen Lovegrove: There were a couple of other questions that I am happy to give a tiny bit more detail on. You asked how many people were deployed. There are 14,000, with 5,731 deployed, so a bit more than I said—I said it was just over 5,000. On the vaccine QRFs, of the 42, I said a few more than half, but it is actually 34 that are deployed at the moment. Eight are held in readiness.

Q88 **Sir Bernard Jenkin:** And the Scotland quotient? Do we know that?

Sir Stephen Lovegrove: I don't have that answer at the moment. I will get that for you.

Chair: If you can you write to us with the figures, that will be very helpful.

Q89 **Sir Bernard Jenkin:** On skills, the balancing of the plates on the ends of canes in the circus act is how the procurement programme seems to work. What would you recommend to your successor about how you can control and manage budgets better, in terms of the capability and skills that you have got? What is the recommendation you leave to your successor?

Q90 **Sir Stephen Lovegrove:** One of them would certainly be around the area that Sir Geoffrey just mentioned. I don't believe myself that the recommendations of the Levene report were quite followed as much as they should have been, in so far as it recommended that there should be empowered frontline commands with an extensive range of delegations and a strategic and powerful centre. I think that we probably swung the pendulum a bit too far in the direction of delegation to the frontline commands and we have lost a bit of the muscle memory and the muscle power in the centre to be able to look across some of this stuff as much as we probably ought to. We have changed quite a lot of that, but I think that I would encourage them to continue with full vigour the changes that we are making to make absolutely sure that the centre knows exactly what is going on, at least to the extent that it needs to, in the frontline commands, such that it can make proper balanced investment decisions and proper risk analyses, taking into account the full range of Defence activity and priorities.

Q91 **Sir Bernard Jenkin:** The Levene question is very interesting, because I have seen time and again how an individual brought in to transform things does so while he is there and then [*Inaudible*] impression that lasts more than a few months or years. Indeed, that was his own verdict on his previous visit to the Defence Department in the 1980s.

How do you embed change like that in the culture of the Ministry of Defence—in the attitudes and behaviours of officials—so that those changes become a permanent change in culture?



Sir Stephen Lovegrove: Changing culture is a slow and tricky process. There are some things that you absolutely need to do. You need to make sure that they are properly resourced. There have been moments at which arbitrary numbers—

Q92 **Sir Bernard Jenkin:** What about procedures?

Sir Stephen Lovegrove: We can certainly change procedures, authorities and delegations. We do that kind of thing all the time, particularly around the personnel area, for instance, where we know that we are going to have to change terms and conditions. If we are in a position where frontline commands are changing the terms and conditions of their personnel without reference to the broader picture, we are going to get ourselves into a very difficult pickle, which will be very difficult to find our way out of. There does need to be a degree of central control and central authority that is respected. It is respected at the moment, but it needs to go further.

There are plenty of governance changes that we can make, but it is mainly about having a collective leadership, which is consistently dedicated to having this at the top of mind. It needs to have enough space to not get distracted by the urgent and shorter timeframes, to make sure that the longer term, which is vital for the health of the organisation, is taken care of as well.

Chair: Absolutely. I think we would agree that long-term planning is good.

Q93 **Nick Smith:** I want to pursue a little bit further the issue of OneWeb, which I raised at the top of the session. Mr Pate, I have a letter here from Nick Smallwood, chief executive of the Government's Infrastructure and Projects Authority. He says in the letter that the Government are open to considering how alternative technologies, including OneWeb, may be able to contribute to PNT—position, navigation and timing—resilience in the future, through the space-based PNT programme.

Mr Pate, does the MOD have a budget line on the space-based PNT programme? In order of magnitude, how much is it?

Charlie Pate: Thank you, Mr Smith. I may have to refer to Air Marshal Knighton. There is money in the budget for our space approaches. We might have to get back to you on that, Mr Smith.

Air Marshal Knighton: I can cover that off, Charlie. The space-based position, navigation and timing programme is being run out of the Cabinet Office. In Defence, we have a number of lines of funding to help with resilience for position, navigation and timing, but they are partly associated with specific equipment. Defence is playing its full part, alongside other Departments like the Department for Transport, in that space-based position, navigation and timing work. As I say, the overall risk is being managed through the Cabinet Office, but there is a specific part of the programme that is being run by the UK Space Agency. We are not funding that work directly but, as you would imagine, we care very



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much about the resilience of our PNT capability, so we have a number of budget lines across a number of projects.

- Q94 **Nick Smith:** Thank you, Air Marshal. Can I ask you to please get back to me on that PNT activity and whether or not OneWeb is receiving any moneys through that arrangement?

Air Marshal Knighton: I can assure you that, right now, OneWeb is not receiving money through that arrangement.

Chair: Thank you very much. It sounds like an area that we will want to probe further.

- Q95 **Shaun Bailey:** Obviously, many members of the Committee have raised the need to be up to date, in terms of technology and the fast pace of change. Given what we were talking about before—efficiency savings and modelling—how are we going to be able to ensure reactive procurement? It certainly sounds like, in this space, being reactive to changing need is absolutely vital. Are you pigeonholing yourself a bit here, in terms of how you have been managing budgets and some of the savings? How confident are you that you will be able to keep up with the pace of change globally?

Sir Stephen Lovegrove: It is a very good question. The fact that four of us wanted to come in and answer it testifies to that point. We are well aware that in the newer domains of cyber and space, our historic acquisition procedures are inadequate. They do not respond to the incredibly rapid pace of change in those areas. They are not amenable or susceptible to setting a requirement and then having a rather stately process of acquisition and then, three years later, ending up with the piece of kit, before it comes into operation.

To echo something that Air Marshal Knighton said, in the three traditional domains, as it were, the effectiveness of our equipment is less about the platform and more about the software development that goes on the platform. We need to bring the acquisition techniques that are more associated with the tech sector not only when we are buying things from the tech sector but also into areas of more traditional equipment.

I spent some time in the States with the acquisition machine there, and they are wrestling with the same problem and have some very interesting ideas about it. The Germans are certainly wrestling with the same problem—I'm not so sure about the French. We are conscious of this, and that is why acquisition reform is one of the things—not merely in a traditional improving-value-for-money sense, but in a much more fundamental sense of whether this is the right way to buy kit that will remain relevant—that is very close to the top of our minds at the moment, and we are working hard on it. As I say, others will have other things to say on that. It is a really important topic.

- Q96 **Shaun Bailey:** It is great to hear that, but is it not the case that, in order to be able to achieve those ambitions, we need an affordable equipment plan on which to build that? Surely the priority has to be getting that



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nailed down first.

Sir Stephen Lovegrove: Yes.

Sir Bernard Jenkin: I was going to ask finally about the integrated security review, which of course is shared across the Government, and your responsibility for that will continue in your new role. Would you like to be able to say anything about that continuing role, in respect of the integrated review, now? In particular, what do you take with you from the Ministry of Defence?

Sir Stephen Lovegrove: You are right that I will continue to have some responsibility for the integrated review. I haven't engaged in it in the last week or so.

Q97 **Sir Bernard Jenkin:** Does NSA have the lead?

Sir Stephen Lovegrove: NSA does have the lead, yes. David Quarrey is in the lead at the moment. I am obviously getting much closer to it and I have a session on it this afternoon, in fact. My appointment was announced only a day or so after it was decided, so there hasn't been a lot of lead-in to this for me. I think the documents will do this, but we need to broaden the definition of national security quite radically. That is probably right.

Q98 **Sir Bernard Jenkin:** To include national policy and technology transfer?

Sir Stephen Lovegrove: I think so. We must be unapologetic about protecting what we have, what sets us apart and what gives us an edge. We must be unapologetic about thinking through aspects of public health, through the lens of critical national infrastructure and the kinds of decisions that are attendant on that lens being applied. We must be clear-sighted about where our interests lie, and where the economic interests and our security interests are in conflict. If need be, we need to make choices rather than hope to have absolutely everything in play at the same time.

The main thing is that we need to think carefully about what constitutes national security in these complicated and problematic times. A broader definition is required, which then brings in more of Whitehall and a slightly more problematic bureaucratic exercise, but that is a price that is worth paying.

Sir Bernard Jenkin: A good appointment. Congratulations and good luck.

Sir Stephen Lovegrove: Thank you very much.

Q99 **Chair:** Thank you very much. It is very rare that you get such bouquets from the Public Accounts Committee, Sir Stephen, so lap it up while you can. We'll have you back in in your new job. Sir Stephen has one more appearance in front of us, so we won't ask you for your valedictory at this moment, but we might come back to you on that.

Can I ask about the integrated review? Do you have a timetable for that,



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Sir Stephen? Do we know when we are going to get it?

Sir Stephen Lovegrove: We are still aiming for the spring.

Chair: Spring is a very broad term in the civil service. Can you narrow it down?

Sir Stephen Lovegrove: It is. It is not in my gift at the moment. Indeed, even when I am NSA it will not be in my gift; it will be the Prime Minister's document, but that is what he has said. I would hope that it would be sooner rather than later. I am keenly aware of the Committee's desire, and that of lots of other commentators, to see what is in it. I appreciate and understand that; we will do it as quickly as we possibly can.

Q100 **Chair:** You will be—in recent history, anyway—a uniquely qualified national security adviser. You understand the impact of that document on the Equipment Plan. When you say sooner rather than later, is there a plan in your current Department to publish a full assessment of the Equipment Plan once that integrated review has been published?

Sir Stephen Lovegrove: Whether or not we will be doing an Equipment Plan in quite the way that the NAO— This process is investigating. It is a question. We certainly anticipate putting out a document that gives you and other commentators much greater clarity about the investments, disinvestments and the granular projects we will be pursuing, in a way that we unfortunately have not been able to do today.

Q101 **Chair:** Mr Pate, I saw you nodding vigorously. We like vigorous nodding. Have you got something to tell us?

Charlie Pate: Just that we would expect, in due course, to bring forward the details that Sir Stephen said. That was what I was nodding along to.

Q102 **Chair:** Agreeing with your permanent secretary is always a good career move, but does that mean that actually you might come up with some of the points that Mr Ellwood was raising—decisions about what you do and what you don't do—as a result of the integrated review? Will that revision or assessment of the Equipment Plan possibly include stopping certain projects if that is what the integrated review demands of the Department?

Sir Stephen Lovegrove: Yes. I have no doubt that there will have to be disinvestments in order to make room for the investments that we need to make for the fight that we may have to wage tomorrow and, indeed, are increasingly having to wage today.

Chair: That is a very big point to finish on. We appreciate that until you have the integrated review and we have all seen it, we won't know what that is, but we will be waiting with bated breath; both the Defence Select Committee, our sister Committee, and we will be wanting to crawl all over that. Thank you very much indeed for your time. The transcript of this session will be published uncorrected on the website in the next couple of days.



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