Public Accounts Committee

Oral evidence: Military flying training, HC 391

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Kevin Foster, Nigel Mills, David Mowat, Stephen Phillips, Karin Smyth, Mrs Anne-Marie Trevelyan

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, and Lee Summerfield, Director, NAO, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Q1 Chair: Welcome to the Public Accounts Committee. We welcome today's witnesses: Sir Baz North, the senior responsible owner of the UK military flying training system; Jon Thompson, the permanent secretary at the Ministry of Defence; and Paul Livingston, the managing director of Ascent, which is a company 50:50 owned by Babcock and Lockheed Martin. We are here today to discuss two National Audit Office Reports and the implications for the taxpayer.

The first Report is on military flying training, which is one example of an external contract, and how it is being managed—Stephen Phillips will be leading on that. The second, of course, is on strategic financial management in the MOD. Mr Thompson, you have previously been quite welcome at this Committee because, as you would acknowledge, the Department was in a bad place five years ago at the beginning of the last Parliament, and we acknowledge that there has since been a lot of progress with some very good financial management in place. You are, I think, the only ever financially qualified permanent secretary in Whitehall. Is that right?

Jon Thompson: I think I am the only one who has been promoted from the finance job.

Q2 Chair: Which means you are. That is perhaps an alert for the taxpayer.

Particularly in the second session, we will be going into how you will move forward and how you are watching the details. Data issues came up quite a lot in the flying contract. What are you doing to monitor that? How are you tackling and challenging future procurement contract issues? You have set up some really good structures but, as I am sure you are aware, the proof will be in what happens down the line. We really want to be reassured that you have got some control over those future challenges and risks, which we are going to touch on in our questioning, and that you can recognise a problem early enough and act on it. Without further ado, I am going to pass over to Stephen Phillips, who is going to lead on military flying training. Over to you, Stephen.

Q3 Stephen Phillips: Good afternoon, Mr Thompson. In a sense, this NAO Report on military flying training leads into the second half of this session. Would you agree that this is a very good example of a way in which risks that the Department did not anticipate have eventuated in, and led to, poor value for taxpayer money and increased cost?

Jon Thompson: I'm not sure I would go that far. I think the Report is a very good summary of a project that was much delayed and significantly impacted by the 2010 SDSR.

Q4 Stephen Phillips: Let's just pause there. You say "much delayed". This project is six years behind where it ought to have been, isn't it?

Jon Thompson: Yes.

Q5 Stephen Phillips: In one sense, therefore—in terms of shifting the risk for military flying training from the Department to an outside contractor—it has been a complete disaster, hasn't it?

Jon Thompson: It has certainly been delayed by internal factors and some factors beyond the Ministry of Defence's control. The strategic reset of the 2010 SDSR is rather well set out by the NAO in figures 10 and 11 on pages 29 and 30, where you see the significant reduction in demand. Clearly, that had to be taken into account, in terms of resetting the programme.

Q6 Stephen Phillips: But already your answers illustrate that, when the MOD makes assumptions, which it has to make, about requirements going forward, that carries a level of risk. If those assumptions change, that has implications for the Department and the taxpayer.

Jon Thompson: Yes, I would totally accept that. The Report sets out in the executive summary what those major risks are in relation to this project. The overall Ministry of Defence programme is complicated and risky. Yes, I would agree with that.

Q7 Stephen Phillips: What was the purpose of outsourcing flying training from the MOD?

Jon Thompson: Perhaps I can give you the strategic view from the board, and then, if you want, I'm sure the Air Marshal can fill it in. We believed that there were four fundamental benefits. One was to emphasise the front line of the RAF. Clearly, this is primarily a support function, and therefore you want to use your resources primarily on front-line, rather than in support. Secondly, we felt there were some benefits in terms of accessing external finance. Thirdly, there were some benefits around system coherence, because you have got the focus of a single organisation. Fourthly, there were some elements of risk transfer. Again, the Report sets out the benefits well on pages 23 and 40, but I'm sure the Air Marshal can give you a longer answer on the benefits.

Q8 Stephen Phillips: Sir Baz, do you want to come in at this point? Why on earth should we outsource something as important to the nation's security as military flying training?

Sir Baz North: In 2000, the NAO Report clearly identified a lack of coherence, clarity and focus in bringing together the flying training from the three services within the Ministry of Defence. Consequently, recognising that we needed investment to deliver a flying training system that was coherent, that maximised the use of synthetics, and that was therefore focused on the delivery of skill sets and quality to the front line, bringing in an external contractor that has expertise and recognises the ability to invest—

Q9 Stephen Phillips: The contractor had no expertise, did it? It was a joint venture between Lockheed Martin and Babcock, and they had no previous expertise. Indeed, this is now a model that they are going to try to sell around the rest of the world.

Sir Baz North: A joint venture with companies focused on flying activities, with experience of working in the military market, to allow from a service perspective the investment of a contractor, so we can move the instructors and skill sets to the front line, and so taxpayers gets better value for money out of the investment they have made in training aircrew across the piece. Additionally, if I may, it is to invest in equipment that is modern and that can be exploited in better availability to the platforms that we have previously invested in.

Q10 Stephen Phillips: Part of the problem with that answer, Mr Thompson, is that shifting the risk and outsourcing the requirement for the purchase of equipment is not something that has happened universally, is it? The Department, for example, initially anticipated that Ascent would be providing the training—the fast jet trainers—and that has not happened, because there was a ministerial direction to whoever was the permanent secretary in 2008 that we had to buy some Hawks.

Jon Thompson: That is correct. Yes, that is factually true. That is what happened in 2008 to my predecessor's predecessor.

Q11 Stephen Phillips: So one of the significant factors that underlined, or was used as a justification for, outsourcing military flying training has fallen away, hasn't it?

Jon Thompson: Put fairly bluntly, one of the original drivers way back, yes. One might emphasise that this Report confirms that, if we are able to manage the issues and risks that are set out in the Report, there remains a significant opportunity to drive increased value for money for the taxpayer. That is the ultimate conclusion.

Q12 Stephen Phillips: Obviously we are looking at that for the future, but we are also looking at past performance. You have already accepted that this contract has been delayed by nearly six years in terms of its implementation.

Jon Thompson: Yes.

Stephen Phillips: So, here we are as the Public Accounts Committee, and taxpayer money has obviously been used to fund the contract with Ascent, it is six years behind where it ought to be, and any number of the assumptions on which it was based have fallen away. Does that mean, as I suspect it does, that we would have been better off not placing this contract with Ascent, and keeping military flying training within the Ministry of Defence?

Jon Thompson: No, that is not our perspective, no.

Q13 Stephen Phillips: Mr Livingston, what do you think that Ascent offers, what does it do that the Department was not doing when it managed military flying training?

Paul Livingston: It has taken a completely different approach to the delivery of military flying training, because it is an output-based systems approach to training and a method of designing and delivering a training system. Historically what happened was that people would procure a particular aircraft. They would say, "We think we need a turboprop. We will go and buy a particular aircraft and we will run a competition for that. Then we will figure out, once we have got the aircraft, a syllabus and how we use it."

What we have done is take the requirement from the Ministry of Defence, which is a number of different aircrew positions a year—pilots and rear crew—against a plan out to 2033, a required output standard from the UK military flying training system, which is the input standard for the operational conversion units. We have developed a training system that draws as smooth a curve as possible from their input standard, which is graduating from whichever military college or entry route they come into the service, to reaching that output standard in the most efficient way. It is tri-service, it is completely coherent, it is controlled and it is configuration-managed. That has never been achieved before in the history of UK military flying training.

Q14 Stephen Phillips: Yet there is no incentive for Ascent, under the contract, to improve skills. You are paid essentially by the number of people you train rather than by the quality of those who emerge at the end of the sausage factory.

Paul Livingston: The skills bit is inherent because I am not, nor should I ever be, the judge of whether they are good enough. The CFS retains the role of ensuring that the instructors—both military or civilian, because we have a balance—operate. When they arrive at the OCU they have to meet those standards; they have to pass their final check flights; they have to be ready.

Q15 Stephen Phillips: We may be at cross purposes. There is no real financial incentive for Ascent to improve the quality of flying training, because you are essentially paid by numbers. That is right, isn't it?

Paul Livingston: We are paid by course completion incentive fee, which is what it says in the description. That fee is effectively our upside profit; it is where we make our money on this programme. That incentive is tied to the production of aircrew on time. By definition, if they are not coming out at the right standard they are not being produced, because they would not be going to the OCUs.

Q16 Stephen Phillips: I am interested in the quality of the training. There is nothing in the contract that incentivises you to improve the quality of the training, is there?

Paul Livingston: There is the whole-system incentive fee part of the contract, which that looks at where whole-system improvements can be made. Unfortunately, because the contract was written and signed prior to the pre-2010 SDSR, the KPIs that trigger the vast majority of the WSIF pot, if you like, are not any longer available to us.

Q17 Chair: Sorry, what is the WSIF pot?

Paul Livingston: Sorry, whole-system incentivisation fee. That would be where we would be incentivised for that, but the KPIs are no longer relevant, which is one of the many reasons why we are taking the NAO's recommendation to look again, with the UK MOD, at the incentivisation mechanisms in the contract.

Q18 Chair: But you did acknowledge to *Flight International* in July this year that there were initial shortcomings and that you should have better anticipated the challenges of establishing such a capability for the first time. On a slightly different point, you were talking to Stephen Phillips about the change in 2010, but do you acknowledge to the Committee and to the taxpayer that there were problems in how you set it up from the beginning?

Paul Livingston: Absolutely. We would acknowledge and express our regret that, between 2008 and 2012, Ascent didn't have its act together properly. I know that the shareholders, Lockheed Martin and Babcock, would agree with that. That is why, in 2012, when the shareholders realised that Ascent was not performing, significant changes were made to the management team and by the new management to the way the company operates.

Q19 Mr Bacon: Why did it take four years to realise that you had not got your act together?

Paul Livingston: If we go back to the 2010 drop in requirement that basically meant changing and revisiting everything and a decision by the MOD and ourselves to pause, wait and push the procurement of some of these things to the right, it wasn't actually that clear how much was going wrong. I think that kind of masked the fact that we did not have the right people with the right skill sets organised in a programme-focused delivery way.

Q20 Mr Bacon: I accept that there was a big change, and one of the skills in management is coping with big change, but you just said that from 2008 to 2012 you didn't have your act together. That is four years. The Air Marshal said that one of the things we were to expect from this, apart from the risk transfer that didn't happen, was system coherence. It is slightly worrying to me that the Ministry of Defence, charged with defending the realm, cannot get coherence in and of itself. I would hope that it could do that. After all, I think it was Winston Churchill who said that we don't want a Secretary of State for War and a Secretary of State for Air, we want a Ministry of Defence, because we want coherence. Here we are 80 years later struggling to get coherence. We come to you, and you take four years to work out that you're in a mess. Why? Isn't the whole point of getting people like you that we get these benefits?

Paul Livingston: I think I already said that we didn't get it right. It was not recognised quite so quickly because the programme went through phases. We were not delivering trained students in 2008; it was the whole procurement and establishment of the systems to support the Hawk T2, to which Mr Phillips has already alluded, that had been pre-selected by the MOD, and we had to then—

Q21 Stephen Phillips: Let's not mince words, Mr Livingston, the whole senior management team was sacked, wasn't it?

Paul Livingston: There is nobody left on the senior management team of Ascent today who was there in 2012.

Q22 Stephen Phillips: Right, so it took four years to work out that they all were not up to the job.

Paul Livingston: Actually, there was a change of managing director more than once, but by 2012 it became clear to the board that significant change was required.

Q23 David Mowat: Did you lose money on this contract over that four-year period?

Paul Livingston: Because of the delays we have not been able to realise what we should have made. Our accounts are there for the public record—you can go to Companies House and look. Over the past seven years we have made around 5% profit on the whole contract, but that is not the only way shareholders would measure success, and obviously you can imagine that that might not be what we anticipated.

Q24 David Mowat: You made a very strong statement there—a very honest statement—that you did not have your act together. That is a strong statement for a four-year period. If I did not have my act together as a supplier for a four-year period, I wouldn't necessarily expect to make even 5%.

Paul Livingston: I would point out that out of those seven years, four have been cash-negative, so there is a cost to cash as well. Any profits that you would see just by looking at the pure accounts are not necessarily truly reflective of the position. Nor have the shareholders ever recovered the money that they put into the deal from 2001 to 2008 when they were bidding for and winning the contract, which is millions of pounds. Actually, I can tell you that this company has never paid a shareholder dividend. Lockheed Martin and Babcock have not had a single penny out of Ascent, because the profit that we have made—that 5%—has been reinvested to cope with the delay, because we have had to maintain an acquisition team for four or five years longer than we'd originally planned.

Q25 David Mowat: But presumably you hope to make money in future.

Paul Livingston: Well, yes, we would hope to make money in future, absolutely. It will be part of my remit to try to make sure that we do.

Q26 Stephen Phillips: So you have not made money in the past, Mr Thompson, yet the centre has been paid £143.3 million of taxpayer money. How many pilots have been trained?

Jon Thompson: I could not answer that question.

Sir Baz North: The outturn of the pilots, from the part that the centre deal with—

Stephen Phillips: Core military flying training. The bit that the centre are responsible for.

Sir Baz North: There are two aspects that the centre are responsible for, the outturn of the Hawk T2 and the rear crew training down at Culdrose.

Q27 Stephen Phillips: How many aircrew?

Sir Baz North: I cannot tell you that immediately.

Q28 Stephen Phillips: Is it 10, 1 or 100?

Sir Baz North: It is less than 100, because the first outturn quarter was in 2012.

Q29 Stephen Phillips: So it is fewer than 100. The taxpayer has spent £143.3 million. Mr Thompson, you have withheld only £308,000 from payments to Ascent. Why?

Jon Thompson: Can we just clarify that what Mr Livingstone—

Q30 Chair: You know how many pilots you trained, because you were responsible for training them.

Paul Livingston: To date 151 students have graduated the UK military flying training system process.

Q31 Stephen Phillips: Right;. 151. If the contract had been on time—it is six years behind—it would have delivered how many?

Paul Livingston: We would have been in a steady state by now. All five lines of the contract would have been open by 2014. The original SDSR requirement was 480 students a year.

Q32 Stephen Phillips: Originally 480 annually. There was then the adjustment from the SDSR in 2010. Presumably that reduced it by about half. Is that right?

Paul Livingston: No, it went from 480 to 320.

Q33 Stephen Phillips: You are supposed to be turning out 320 annually. You have managed to do 151 so far, and £143.3 million of taxpayer money has gone into this project.

Paul Livingston: If you look at those percentages, they are quite interesting. We talked about the SDSR. I will use the NAO's figures, not mine. £6.8 billion was the original value of the programme over the life of the programme. It is now accepted by everybody that the overall value of the programme is £3.2 billion. If you were to take that original 480 and look at the 320 students we are now going to deliver in a steady state, and apply that same ratio, you would get to a programme value of £4.4 billion, not £3.2 billion, so because of the overall pressure on defence to save money, we have had to find more innovative ways of reducing the cost.

Q34 Stephen Phillips: Mr Livingston, I fully understand, going forward, that it may well deliver good value for the taxpayer. What I and the Committee are concerned about is the fact that it is six years behind. The taxpayer has spent £143 million. It is supposed to be spewing out 320 qualified aircrew annually, and at the moment, seven years into the contract and six years behind where we should have been, you have managed 151. It is a disgrace, is it not?

Paul Livingston: No. Sorry, I have to disagree, purely because, if you look at that £143 million that we have been paid and measure it not against the £6.8 billion but against the £3.2 billion value of the programme, that is 4.4% of the total programme value so far. So you can imagine—seven, eight years into the original contract—that we would have expected to be realising significantly more at this point than 4% of the total contract value.

However, what you have to remember is that although the acquisitions have been delayed—the fixed wing and rotary wing—what we have done is designed the training system. There have been over 4,000 courseware-designed documents created. So that was work that would have had to be done at some point. It just so happens that not all of that work has now been realised into training, because of the agreed position between the Department and Ascent to delay the fixed wing and rotary wing programmes based on the output of the 2010 SDSR and the change in IFRIC 12 accounting methodology.

Q35 Stephen Phillips: Mr Thompson, I will come back to you, if I may. We have already dealt with the fact that the SDSR reduced the requirement. That was an assumption that was undermined in relation to the contract and changed everything. How on earth did we get into a position where there were delays to helicopter training because the Department thought it owned existing training aircraft when in fact it did not?

Jon Thompson: Clearly, that was a fundamental mistake. If I can row back a bit, none of us is going to defend the events leading up to 2012 when this programme was fundamentally reset. Clearly, the Ministry of Defence got it wrong. It was part of a significant landscape of projects that needed fundamentally resetting. That happened in the 2010 SDSR, and you have been through many of those in the last five years—aircraft carriers and so on.

Q36 Stephen Phillips: We know the aircraft carriers were supposed to cost £3 billion and they have ended up costing £6.2 billion. That is another example, but the military flying training is the one we are on. It seems, to me at least, that there is a significant problem with assumptions that are made by the Ministry of Defence which affect the value for money delivered by taxpayer spending going forward.

Jon Thompson: Yes. I am being up-front about it, as I always am with the Committee. Clearly, that assumption was fundamentally wrong and the report sets out that assumption. Actually, if we had owned those assets we would not have used them in this solution anyway. Again, I am sure the Air Marshal or Paul can tell you why we would not have used those assets. So that assumption was wrong on both fronts, actually.

Q37 Stephen Phillips: Well, we are where we are, and you have been very plain-speaking about this, for which many thanks. I want to ask you two things. First, do you agree that taxpayer money has been wasted on this contract? Secondly, if you had the time again—I know you were not the permanent secretary at the time—would it have been more sensible to have retained military flying training within the Department and within the commands?

Jon Thompson: Hypothetical questions are always great, aren't they?

Q38 Stephen Phillips: Let us deal with them one at a time. Has taxpayer money been wasted?

Jon Thompson: I could not honestly tell you whether it has been wasted, but, clearly, significant funds have been expended and you would definitely have to ask that question.

Q39 Stephen Phillips: Let us put it this way: between the two of us, it is likely to have been wasted, is it not?

Jon Thompson: It is possible that some money has been wasted on this project, yes.

Q40 Stephen Phillips: Right. And if we had our time again, would you outsource core military flying training or would it be retained within the Department? What would be your recommendation?

Jon Thompson: If this was a business case currently going to our investment approvals committee, which you will undoubtedly get to in the second half of this hearing, those are exactly the kinds of issues that we would have to thrash out before we gave it an approval. With the significant improvement in the running of the investment approvals committee, which scrubs business cases like this, and which was the subject of an NAO report in 2012, I think our processes would flush those issues out if we were going forward. So if this was a project now, I think we would be able to—

Q41 Stephen Phillips: In other words, it would not happen now.

Jon Thompson: Well, you know as I well as I do that I can never say to you, given the enormous complexity of the Ministry of Defence, that every single risk is bottomed out to the nth degree. We have significantly improved, but I can never give you a guarantee. The question was, would I still, on balance, do this. I think we would.

Stephen Phillips: One problem with outsourcing military flying training is that it reduces the MOD's ability to respond in a flexible way to threats that we do not know about, or that we do know about but have yet to eventuate. I am not going to get all Rumsfeldian about it, but it undoubtedly reduces your flexibility, does it not?

Jon Thompson: We actually do not think that is true. I know the Report—

Q42 Stephen Phillips: Well, it is an agreed Report, that is what the Report says, and there is nothing from the MOD that says that they disagree with that conclusion. If you were going to say that you do not agree with that, then, frankly, you should have said it sooner.

Jon Thompson: Well, what is an agreed Report? I am not debating whether this is agreed or not. Your question is, do we think this has flexibility. We do think it has some flexibility. We have an open-book accounting arrangement with Ascent; if we said we wanted to increase by a hypothetical 20%, could we have that conversation with Ascent and understand whether they could provide us with a solution and what that would cost? Yes, we could.

Q43 Chair: You could easily increase the number, but for Ascent, presumably, Mr Livingstone, you would have to provide a certain amount of capital equipment for that to happen, so the cost per pilot trained is actually the key question, is it not? Increasing it by a certain number, two over, would be very expensive. I do not know how many you can train in one aircraft, but whatever that would be would be a much cheaper way of doing it.

Jon Thompson: Your counterfactual hypothesis here is that we, the Ministry of Defence, have more flexibility than that which is available through this contract, which may not be true.

Chair: Do you want to unpack that?

Jon Thompson: The hypothetical question here is, if we wanted to change the requirement—

Q44 Chair: It is not so much hypothetical. Let's face it, there are a lot of changes going on, and you have a protected budget now. It may well be—we do not know what could happen in the world—that we do need more pilots. It is a practical thing for the Ministry of Defence to focus on and not, hopefully, see it as hypothetical.

Jon Thompson: Okay. Let me withdraw the word "hypothetical". We want increased demand. There are two plausible ways forward. One is to change the contract. We believe it could be changed, and we have open-book accounting and a range—

Q45 Chair: So you are saying you could do that quite cheaply.

Jon Thompson: It would be subject to a negotiation. I'm sure that Mr Livingston wouldn't want to do that live in front of the PAC. I understand that the shareholders have a negotiating position, and we have a negotiating position, too. The additional cost of that would be transparent.

The alternative is that we do it ourselves, for which there is also a cost. We would have to run that as a value for money option, which we would do through our investment committee, so it is transparent to decision makers such as the Chief Secretary and the Defence Secretary.

Q46 Stephen Phillips: Could I go back to you for a moment, Mr Livingston? This is a set-up that you are hoping to try to roll out for other military forces in other parts of the world. Is that right?

Paul Livingston: Not as Ascent, no. Ascent is a special purpose vehicle that is solely there to deliver the UK military flying training system. I have no remit from the board to access international business or create a separate line of business. Lockheed Martin and Babcock—

Q47 Stephen Phillips: Is someone over the top of you at Lockheed Martin or Babcock trying to market it to other people?

Paul Livingston: Lockheed Martin—in fact, just ahead of the signing of MFTS—had already signed a similar kind of contract with a customer in the Asian region. They were recently selected as the preferred bidder for the Australian AIR 5428 programme. Actually, to address one of the comments you made earlier about a lack of experience, Lockheed Martin is the largest provider of military training on the face of the planet. They have more students, and they already did. What they weren't doing anything in was privately financed constructs. That was the bit that was new to us. That is why at the time we accessed VT's—now Babcock's—deep knowledge of and capabilities in PFI. We were bringing together the knowledge and expertise of those two companies. I respectfully remind the Committee that it was won in a competition against other very large, well experienced companies.

Q48 Stephen Phillips: You were the cheapest bidder.

Paul Livingston: We won on all three measures. The bid debrief is there for the record. One third of it was commercial, one third was technical and one third was partnering—the ability to work together in the long term.

Q49 Stephen Phillips: You were the cheapest bidder. Correct?

Paul Livingston: Yes.

Q50 Chair: Stephen, before you continue with that, can I be clear about something? At RAF Cranwell, are you training, as Ascent, overseas pilots? You said you are not, but I understand from colleagues who have visited that there are some overseas pilots.

Paul Livingston: That is a slightly different question, which is about international defence training. The MOD buys from Ascent a capacity to train students. If the MOD wishes to place an international student as part of their capacity through their Government-to-Government international defence relations, I would train them, but it is not a separate, independent revenue stream for me. It is part of our contract with the Ministry of Defence.

Q51 Stephen Phillips: So Ascent itself is not bidding for contracts with other customers, but one of your 50% shareholders, Lockheed Martin, is, and it sounds as though that is being done successfully. To what extent is Lockheed Martin making use of the experience it has through the Ascent special purpose vehicle?

Paul Livingston: It doesn't come in to us. Because they are a subcontractor to me we have a firewall, so they don't have access to the IPR. In fact, they are specifically excluded from the IPR, if that is where you are getting to, in terms of our training.

Q52 Stephen Phillips: Sorry, what is the IPR?

Paul Livingston: The knowledge of our training design database, how we train tasks and how we design those tasks.

David Mowat: Intellectual property rights.

Paul Livingston: Sorry, yes, intellectual property rights. Thank you, sir.

Q53 Stephen Phillips: The question I want to ask you is this. Is Lockheed Martin, Babcock or anybody else essentially making money marketing this to other customers out of the fact that the RAF, the Army Air Corps and the Fleet Air Arm have been used as the guinea pigs for this contract?

Paul Livingston: I don't think I recognise the term "guinea pig". Clearly, when you as a Government look at procuring anything, as other Governments do—

Stephen Phillips: We're not a Government; we're a Parliament. Mr Thompson is a Government.

Paul Livingston: Good point, sir. When a Government look at acquiring things, they will look at the pedigree and past performance of the companies that are bidding to them. I am sure that Ascent would be used as an example of where Lockheed Martin is supplying ground-based training equipment—

Q54 Stephen Phillips: It's not a very good example, is it, given that the senior management team had to be sacked four years into the contract?

Paul Livingston: What I would reflect on, if I was allowed, is that in the two years since I became MD—I joined the company in January 2014—we have not missed a single deliverable, nor delivered a single student late, nor had a single deliverable rejected. That is not really down to me. That is down to the amazing team that works in building 1300 every day, alongside 22 Group and the

DE&S programme team, and the collaborative working relationship that I have with the other two key MFTS executives.

Q55 Stephen Phillips: That brings me nicely to figure 17 in the Report. You say that you haven't missed any deliverables. One of the purposes of this contract, although I don't think Mr Thompson identified it in his answer to me, was supposed to be reductions in training time. Let us just take the fast jet example and look at your Ascent model for 2019. This is what you will have in place once the contract has reached steady state, as I understand it. Is that right?

Paul Livingston: Correct.

Q56 Stephen Phillips: So, it's supposed to be four years and two months to having a combat-ready pilot in place after they have started their training.

Paul Livingston: Yes.

Q57 Stephen Phillips: Is there no downtime between any of the elements that make up that figure of four years and two months? Is there no leave, for example?

Paul Livingston: Leave is built into the course.

Q58 Stephen Phillips: All right. That's fine. There is no gap at all between any of the training. Is that right?

Paul Livingston: That is absolutely right. Why would you want to take highly motivated young aircrew and put them on pauses and holds? They absolutely need their leave and their time to rest and recuperate, but once we get to 2019 and we will be managing—

Q59 Stephen Phillips: Excuse me, Mr Livingston. You are answering a question that I am not asking. I quite agree with you that, in an ideal world, you would want one piece of training to finish and the next piece of training to start, not taking leave into account. However, if you then look at figure 18, that is not what has been happening, is it?

Paul Livingston: Correct.

Stephen Phillips: Because if we look at figure 18 and at fast jet, under the Royal Air Force heading, we see in an analysis of aircrew training time that the maximum training time for one of the 151 who has passed through your courses is in fact 83.4 months.

Paul Livingston: With all due respect, he hasn't passed through my courses.

Stephen Phillips: Well, it's seven years.

Paul Livingston: No, he has passed through the advanced jet trainer part of the course. I don't control the earlier part of the training system.

Q60 Stephen Phillips: Maybe it's not a question for you, then. Maybe it's a question for Mr Thompson or Sir Baz. Mr Thompson, we are supposed to be training fast jet pilots in four years and two months. Here's an example of someone who has taken 83.4 months. The minimum is 53.6 months for anyone who has passed through this training.

Sir Baz North: The postulation in terms of the reduction in the flying training pipeline is when all five elements of the military flying training system are in place. There is currently only one part of that in place, which is that of the Hawk T2 at RAF Valley. When we get on to contract in terms of the delivery of the elementary flying training and the basic flying training, which then leads to that advanced part of the course, there will be the investment in synthetics that currently is not there in the elementary phase—

Chair: Could you explain the language?

Sir Baz North: Sorry—that is the use of simulation rather than live flying, which therefore means a reduction in time in the air and more enhanced training in a simulator.

Mr Bacon: Everyone knows about simulators. Why didn't you just say simulation or simulators?

Chair: Never mind. Carry on, Sir Baz.

Sir Baz North: The postulation in terms of the reduction in time is from 2019, when the full programme is in place. You are absolutely right to identify, and the NAO was correct to record, that that is currently not the case. Currently, one is experiencing four years and 11 months for a fast jet Typhoon pilot. The aspiration—

Q61 Stephen Phillips: Sorry, is that the mean time?

Sir Baz North: That is the time taken from the analysis that we have done following the NAO Report. For 2010, it was four years and 11 months. When the full course is in place, the reduced time through training—on behalf of the Department, where we program more acutely and are more disciplined in terms of the passing on from one part of the course to the other—will mean that the time taken to hit the front line will reduce to three years and five months. It is a postulation for 2019, not the actual position today.

Q62 Stephen Phillips: That leads us nicely back to Mr Thompson, because what that means in essence is that because the contract is six years behind where it ought to be, it is taking a lot longer to deliver pilots than it otherwise would have done had the contract been effected. What that means is that the value for money that this was supposed to deliver has not been delivered and that taxpayer money has been wasted. That is right, isn't it?

Jon Thompson: It is certainly correct that the value for money that could be obtained from this is delayed. That is self-evident.

Q63 Stephen Phillips: Sir Baz referred to the data and some work has obviously been done, because those figures are not perfect. There is no mean in those tables. They refer to the maximum and the minimum and the sample size is too small. You have obviously done some data work since then. Can I just ask you about data, Mr Thompson? One of the things that the NAO highlights is that all the data in relation to this are held in different pockets all over the MOD. Why is that and what are you doing to rectify it?

Jon Thompson: We are introducing a single system—a training management information system—so you can track all students. That is a system in flight and yet to be implemented, but it is the way forward.

Q64 Chair: When will that be in place?

Jon Thompson: In retrospect, that should have taken place significantly earlier.

Q65 Chair: When will it be in place? Do we know, Sir Baz?

Sir Baz North: I do not have a date when it will be in place.

Mr Bacon: Why not?

Chair: Let Sir Baz finish and we can come back to that.

Sir Baz North: However, what we will be doing is baselining every single aspect of flying training from each aircraft type on the front line back to the 2010 position, which is what the NAO working with us has recommended. We can have accurate data points to report back to you to identify the benefits and to have that audited to show that we are delivering the benefits when the full system is in place.

Q66 Chair: That is good news but, as Richard Bacon says, why don't you know when that data management will be in place? Do you have a ballpark idea?

Sir Baz North: One of the issues I have is in respect to the potential change from the defence review to be announced some time before Christmas in terms of the ask of what difference that will make to volumes.

Q67 Chair: So it is on hold and waiting to be finalised after that?

Sir Baz North: We have already worked through Typhoon and C-17, so we have the accurate data for that. We are working through every type as we move on over the next six months or so.

Q68 Chair: Is that six months after the defence review?

Jon Thompson: I think we ought to be upfront. I hate to say this because I have tried to avoid it at all costs, but I think the best thing to do is give you a written answer to when that system will be in place.

Chair: That's fine.

Q69 Stephen Phillips: I want to bring my questioning to an end, Mr Thompson. Remind me of when you became permanent secretary. I know you came in after all of this, and you and I think Mr Livingston and Sir Baz are due a huge amount of credit for trying to get it back on track. Is this just about the worst example in your time at the MOD of a contract that has gone completely off the rails and which you have had to try to wrestle back on to the rails?

Jon Thompson: No.

Q70 Stephen Phillips: So there are others that are even worse than this?

Jon Thompson: I have a monthly report that I give to the Defence Board as, if you like, the chief executive of the Ministry of Defence, which covers a wide range of data. On there is the portfolio of all the major projects. This project is not in the worst shape, no.

Q71 Stephen Phillips: It is certainly not now, I accept that, but it has been in the past when Ascent had to sack all its managers.

Jon Thompson: There were definitely projects worse than this that have been reset in the past five years. The Committee will be familiar with some of those. The aircraft carrier immediately comes to mind. That was a shocking waste of public money.

Q72 Mr Bacon: I just want to come back briefly to this management information question, Sir Baz—the management information system that you are describing and hope to have in place but have not quite got it there yet. Am I right in thinking that the purpose of that is so that you can have a clear sight across the piece for all trainees of who is being trained, when and how far they have got in their training and when they will complete it?

Sir Baz North: We already have monthly reviews with respect to every part of the flying training and of the individuals going through. What I need to deliver, so that the NAO can report to you—

Q73 Mr Bacon: I wasn't asking what you had already got, with respect. I was asking whether the purpose of this management information system, which you don't have yet but you say you will have soon, is to ensure that you have a landscape view of everything that is going on, in terms of who has been trained to what extent and by when, and what they have got remaining.

Sir Baz North: That is correct.

Q74 Mr Bacon: The idea, as it were, is to have a 100,000-foot down view on everything?

Sir Baz North: Yes.

Q75 Mr Bacon: I am gasping to understand how you could not have that already. I could do that with a spreadsheet. You are talking about 153 people—

Paul Livingston: 151.

Q76 Mr Bacon: You have got 151 people through this system. Steady-state is supposed to be 300 and something or 480 or 320. One could do it with a spreadsheet. I accept that there was this mess from 2008 to 2012. Mr Thompson candidly said that no one was going to try to defend what had happened up to that point. But there have been three years since then, a total of seven years to get this together, and you are telling us that you still don't know yet when you will know when you will have this oversight. I do not understand it.

Sir Baz North: We already have oversight of every student who is going through, the time spent by those students and where they are in their courses. What I need to be able to demonstrate to you, sir, is, with respect to the baseline that we had in 2010, I know that, with the fewer aircraft that will be in the training system, the fewer hours that they will be flown and the fewer military instructors, this will be better value for money for defence and for the taxpayer. However, what I cannot do is demonstrate the data that underpin that position. There will be fewer aircraft, fewer flying hours and more investment in synthetic and simulated training, but I cannot nail the answer for you to say, "It's this amount cheaper." Today, £2.25 million per fast jet pilot for training; in 2019, £1.5 million for training a fast jet pilot to OCU standard. I need to be able to demonstrate that to you with data and that is what I do not have. We are working to deliver that.

Q77 Mr Bacon: What I do not understand is why the need to have that was not built in right at the start. The lack of management information is the single biggest piece of scratched vinyl that we come across, again and again. It should be designed in at the outset, shouldn't it?

Sir Baz North: Sir, you are absolutely right. It wasn't and that was identified by the NAO. I am grateful to it for picking us up on that, so that we can demonstrate it to you.

Q78 Chair: May I ask something partly around data as well? First, how will you, Sir Baz and maybe Jon Thompson, measure success? Secondly, what performance incentives are there for speeding up progress if that is required in future for Ascent? How much will it cost?

Sir Baz North: In terms of measurement of success, that will be in terms of the quality of the air crew arriving in the front-line OCU—

Q79 Chair: That will be judged by the three commands?

Sir Baz North: Indeed, by all three services. That will be reflected in the reduced amount of time from arriving in the front-line OCU to leaving it with the competence to operate to defend our country.

Q80 Chair: Faster well-trained pilots?

Sir Baz North: Absolutely. In terms of the coherence and the reduced amount of time going through the flying training system so that we get more return of service from the investment in every pilot, if we can get to the point that we are aiming to in 2019, that is an extra one and a half years per fast jet pilot in terms of productive service that the taxpayer will have from this system.

Q81 Chair: Will you factor in early retirement and that sort of thing for people? Are fast jet pilots allowed to leave the service early?

Sir Baz North: In terms of the contractual arrangements to join the services—it is for all three services moving to a new employment model, with the timeline of one's service—clearly there will always be those who might turn around and say, "Actually, I wish to retire prematurely," but one would be looking for a return of service from the investment made by the taxpayer in terms of the OCU course. That is an arrangement that we have with the Department in terms of the value for money of the time that has to be served having had that training on the front line.

Q82 Chair: Before I pass over to David Mowat for pretty much a final point before we move on to the next panel, I mentioned a performance incentive for speeding up progress of Ascent. Once that is in place and working well, if Ascent can squeeze another month through the programme it has designed, what incentives does it get for that and is that cost-effective for the taxpayer?

Sir Baz North: The incentivisation for Ascent is absolutely recognised, but of course the current incentives are based on the 2010 baseline, so it is far fewer than that. We are awaiting the completion of this SDSR so that we can sit down with Ascent knowing what the new number will be, so that we can give them a challenge in terms of both the quality of the person hitting the front line—one reflection of the benefit is to reduce even further the time spent on the OCU—and, secondly, as you rightly point out, even more reduced time through the flying training system before getting to the OCU. That is the work that staff in the Defence Equipment and Support organisation, commercially, will be dealing with with Ascent when we know the outturn of the SDSR and the volume of rear crew and front crew pilots going through the system.

Q83 David Mowat: What interests me is the interaction between the contractor and the MOD in terms of this. One of the things that struck me when Mr Livingston was giving his evidence was about firing all the people and starting again in 2012. Mr Thompson, how many of your people left their post as a result of that issue? There is clearly a bust in the project. I am sure you had a very frank discussion and Ascent agreed to change their staff and all the rest of it. I am just asking you how many of your people or command people also moved on as a result of that bust.

Jon Thompson: I honestly do not know the answer to that question. It is highly likely to have been zero.

Q84 David Mowat: It is highly likely to be zero—is that the right number?

Jon Thompson: Not in my opinion, but the process—

Q85 David Mowat: Doesn’t that get to the crunch of what is wrong, in a sense, with a lot of public procurement? You do not hold your people to account in the same way as the private sector does, or at least in that instance you did not.

Jon Thompson: There is quite an interesting debate here, I suppose, about people’s employment rights versus their individual performance, which applies across the economy. Do we hold people to account? Yes. Do we exercise the ultimate sanction enough? Probably not, to be frank.

Q86 David Mowat: Right, so this bust occurred. We saw all the Ascent people leave and new ones come in, and in the meantime the MOD people who were responsible for going into a contract with no baseline—as we heard from Mr Bacon’s evidence, the one thing you do when you outsource something is have a baseline—and for monitoring all of that just stayed on and started to work with the new guys. That was the model, broadly?

Jon Thompson: I was honest enough in my answer to your first question to say that I did not know.

David Mowat: You were. Okay.

Chair: This is something that, as a Committee, we are keen to pursue: accountability.

David Mowat: It seems, as I said earlier, to go to the crux of why we sometimes do not get the performance out of some parts of the civil service that we might all expect. When you get a hit like this, Mr Livingston has to move all his people on and you, frankly, do not. Anyway, we will leave that.

Q87 Chair: You may want to pick up on this in your answer, but there has been a blurring of responsibility throughout this. You have Ascent setting up part of it. You have commands setting up requirements. You have the Department making certain requests. A combination of people were setting and changing the standards as it went through. Which of you is now responsible for this programme, ultimately?

Jon Thompson: We cannot ultimately give away the responsibility, so ultimately it rests with the Department, as it does with the vast majority of projects.

Q88 Chair: But who is responsible if something goes wrong—you? Obviously, Ascent took the hit in 2012.

Jon Thompson: Ultimately, of course, as the accounting officer, I am responsible for everything to Parliament.

Q89 Chair: In terms of lessons learned for the future, which we will be moving on to in the next session, there was a blurring of who was responsible for setting standards and measuring them—even now, Sir Baz is saying, "We will be clear we have good quality pilots." That is a judgment made by the three services, not by the MOD and actually not by Ascent. Ascent will presumably have to meet that standard, so they will have made their judgment, but if Ascent produce what they think are good pilots and the services do not think they are good enough, you again have a blurring of who is responsible for making those judgments.

Sir Baz North: The services set the standards, which we pass to Ascent to deliver. If they are not delivered to that standard, that is where we will turn to the contractual piece to put pressure upon Ascent in terms of not meeting the particular mark and therefore falling foul of the standard required.

Q90 David Mowat: What we were getting at with the question was the blurring of that process. If it is just a question of setting standards and then the contractor goes and delivers those standards, that is fine, and you can manage them on that basis. But the NAO Report talks quite a lot about command having wide-ranging approval rights and becoming involved in many aspects of Ascent's work, such as courseware design. That can be a problem when outsourcing, because it means you have not quite been able to let go.

Sir Baz North: That is absolutely the case prior to 2012, when there were inputs from the Department and others. Since that moment, when a very clear requirement was set for the fixed-wing flying training and for the rotary-wing flying training—

Chair: That is airplanes and helicopters, for the average person.

Sir Baz North: Sorry; fixed-wing aircraft and rotary-wing helicopters. Since those requirements were set, we have been absolutely disciplined in making clear that we have set a requirement that we passed to our contractor, Ascent, to run a competition in order to get subcontractors to provide to us a service. I accept the NAO criticism of that blurring of the edges—it is absolutely right that it was there prior to 2012.

Q91 David Mowat: So you are saying that the criticism in paragraph 10 of the Report is something that really only applied before 2012

Sir Baz North: Because of the different changes. We, the Departments, obviously changed the requirement and therefore there was that moving base and the blurring of the edges. I agree; you are quite right.

Q92 Chair: So you agree with that. We acknowledge and appreciate candour in this Committee. Going forward, have you got targets on time, cost and quality that are clear and understood?

Jon Thompson: Yes, we have.

Q93 Chair: Ascent—Mr Livingston, do you agree?

Paul Livingston: Absolutely. What I would say about this question about roles and responsibilities—I totally endorse what the SRO said about pre-2012 when there was a blurring and help had to be given, if you like—is that now it is absolutely clear. What we have done is, recently, we achieved the BS 11000 independent, externally audited, collaborative working relationships standard. BSI came in and audited UKMFTS on the basis of that standard, which we passed.

One of the core parts of that is actually having a clear division of roles and responsibilities. They go around both my team and Richard Murray, the DE&S PT head's team, and—

Chair: Sorry, DE&S PT—

Paul Livingston: Sorry, he works for procurement in Abbey Wood, looking after the MOD oversight of what we do. Then there is Air Commodore Dave Bentley, who is Director, Flying Training. So the three of us together are the three executives that are co-located, managing the UKMFTS project together. But the division of clear roles and responsibilities is something that the external auditor came in and tested not just at the executive level, but at the working level as well. We would not have passed that audit and got that accreditation without that understanding. So I do think that position—his criticism—is valid but historical.

Q94 Chair: I was talking about the time, cost and quality targets. I do not know if you can tell us briefly what they are now. Write to us with them if they you cannot or if they are not easy to explain, because it would be helpful for our report if we understand what those are.

Sir Baz North: We will report back.

Chair: Okay; fantastic.

Jon Thompson: I am sorry; is it possible to come back on Mr Mowat's question on performance management?

Q95 Chair: Very briefly.

Jon Thompson: I want to make it really clear that, in the last three years, we have sharpened accountability on the senior civil service at the Ministry of Defence and a number of colleagues who were working there in September 2012 no longer work there. Because I think we should sharpen accountability in the civil service and performance management in general, and people should be accountable for that. I think the introduction of SROs coming before you has also sharpened accountability. That would be my view.

Chair: Thank you. We acknowledge that you have been trying to do some of that in the MOD in challenging circumstances. I thank the panel. We will have a two-minute break while we have a changeover. Then we will welcome the witnesses for the second session. Thank you, Sir Baz and Mr

Livingston, for your evidence. Our report will come out in a few weeks or a couple of months and we will let you have a copy of it.