Defence Committee

Oral evidence: MOD Annual Report and Accounts 2015–16, HC 703

Tuesday 18 October 2016

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Watch the meeting

Members present: Dr Julian Lewis (Chair); Douglas Chapman; Johnny Mercer; Jim Shannon; Mr John Spellar; Phil Wilson.

Questions 1-85

Witnesses

I: Mr Stephen Lovegrove CB, Permanent Secretary, Lieutenant General Mark W. Poffley OBE, Deputy Chief of the Defence Staff (Military Capability) and Ms Louise Tulett CBE, Director General Finance, Ministry of Defence.

Examination of witnesses

Witnesses: Mr Stephen Lovegrove, Lieutenant General Mark W. Poffley and Ms Louise Tulett.

Q1 **Chair:** Good morning everybody and welcome to this session on the MOD's annual reports and accounts for 2015-16. May I ask our three witnesses to introduce themselves for the record?

Ms Tulett: Louise Tulett, Director General of Finance at the Ministry of Defence.

Mr Lovegrove: Stephen Lovegrove, permanent secretary at the Ministry of Defence.

Lieutenant General Poffley: Lieutenant General Mark Poffley, Deputy Chief of the Defence Staff responsible for military capability.

Chair: Very good. I will start with you, Stephen, if I may. I believe this is the first time we have seen you in this post, so welcome. Therefore, this does not in any way reflect on you, as you are new, but your Department's accounts have been qualified for the last seven years. Why is this, what are you doing to rectify it, and is it a priority for you?

Mr Lovegrove: The basic reason for it is our inability to comply with the international accounting standard, IFRIC 4, which relates to assets and liabilities that are, effectively, being used solely for defence business. The accounting standards in that kind of situation decree that the Department's accounts should record their value.

We have so many single source arrangements with our suppliers of such a large size, which have been in place for such a very long time, that, with the Treasury, we have discussed whether or not we can apply that accounting treatment. We have collectively come to the view that it is, for us, close to too difficult to do. Unwinding the treatment of those assets would not only be very difficult for us, but would be difficult for some of the suppliers with whom we deal.

I will hand over to Ms Tulett in a second, as she is the expert on this, but we are trying to make some differences going forward so that we don't find ourselves in this position. However, it is a difficult and intractable problem at this point.

Q2 **Chair:** Before you hand over, can I ask this: has it been for the same reason that you have had the accounts qualified for each of these seven years?

Mr Lovegrove: I believe that is the case, yes.

Ms Tulett: Just to build on that a little, what we are doing this year is to look at whether we can do a pilot around some contracts that are single source and that also have a single site that is dedicated to our business. We are working up, with the NAO and the Treasury, whether that will be a credible way forward that balances the cost of compliance with the increased transparency it will give.

We are also trying to work out what will happen because IFRS 16 has now come in, which subsumes IFRIC 4. We understand that the Treasury is unlikely to make that a requirement on Government Department accounting until 1 April 2019 at the very earliest. We need to understand the implications of that new standard as well, to make sure we are building towards the future. We want to come up with a solution that is as transparent, effective and efficient as possible to implement.

Q3 **Chair:** Obviously you are a high-spending Department, and I appreciate that you may have certain problems and issues that other Departments do not have, but on the face of it, it looks problematic, in that the Comptroller and Auditor General completed in the last year, when all the audits were completed for 2014-15, 400 such audits, including five of central Government Departments, and what we found was that the MOD is consistently one of a very small number of Government Departments that has this problem. Is there any reason why this is a problem for you, when it does not seem to be a problem for so many other Government Departments?

Ms Tulett: I think it is about the volume and complexity of our contractual arrangements, when you are trying to look for embedded leases in many of these arrangements. We take this quite seriously. Obviously we do not like having qualified accounts and we want to make sure that our accounts are as transparent and useful as possible to the reader. The costs of the activity in respect of these implied leases that we are referring to are reflected in our accounts, but they are counted in with the cost of the equipment, rather than being shown, as they would be under IFRIC 4, as part of an infrastructure cost. We do take it very seriously, and we are working very closely with the NAO and the Treasury to try to come up with a suitable compromise that means that we become as compliant as is feasible.

Mr Lovegrove: The question you ask is a good one: is this more difficult for us than it was for, for instance, my old Department, the Department of Energy and Climate Change? The simple answer is yes, it is. So much of the equipment that we effectively commission and so many of the sites that we effectively use, or that industry owns and we use for our business, are used only for defence. That is a situation which I cannot think exists in any other Government Department, so it is particularly acute for us, rather in the same way as foreign exchange problems are particularly acute for us. We buy as a proportion of our equipment budget far more than anybody else from overseas. As a result, we have particular pressures. I am afraid it is a peculiarity—both peculiarities are unwelcome—of the MOD accounts. We need to keep working on it.

Q4 **Chair:** I think you have possibly answered the next supplementary in advance by saying that the problem of the single use of various assets causes your accounts consistently to be qualified. It sounds a bit as if there is no actual solution and that it will be continue indefinitely to be a feature of your accounts that they will be qualified for that one reason. Before you answer that and say whether it is fair, let me ask the supplementary, which is: does the qualification of the accounts mean that the Department is entering into contracts when it does not fully understand its financial exposure, and are you failing to calculate and disclose future liabilities inherent in those contracts? That sounds like a different suggestion for the reasons you have given us why the accounts are so repeatedly qualified.

Mr Lovegrove: I would absolutely not say that the Department is entering into contractual arrangements that it does not understand. Can we always get better? Of course we can. One of the things I am keen to do now that I have arrived at the MOD is improve our commercial capabilities, but that is not manifested into the accounting treatment that we have for these kinds of arrangements. As Ms Tulett has said, we account for these arrangements but in a different kind of way. We will certainly make every effort to understand the underlying economic reality behind the arrangements we have with industry.

Whether or not we will ever be able to get out of the bind of the qualifications is a more complex problem—and I will hand over to Louise.

Ms Tulett: It is unlikely until all the legacy contracts have unwound and we have replaced them with new arrangements that we have entered into, cognisant of IFRIC 4. Therefore, what we intend to do is pick up the new contracts—the single-source, single contracts—as we go through them. That will mean that there will always be a legacy issue of being not compliant with IFRIC 4. Removal of the qualification is therefore likely to take longer. However, in parallel, we are trying to work out whether IFRS 16 has embraced the totality of IFRIC 4, or whether it has modified it. There might be a change there, but I do not anticipate that we will remove the totality of the qualification under the current circumstances until all those contracts have unwound.

Q5 **Chair:** There is a danger, isn't there, that because your accounts are probably going to be qualified indefinitely for that one reason, other, less than satisfactory aspects of them will slip through, as it were, under the umbrella of being qualified for that reason, unless it is made absolutely clear both in the accounts and in the Auditor's reports on them what the reasons are for the qualification. Is there any way—it may be that this has already been done—in which your accounts can always try to flag up or pre-empt the fact that you have this one problem? Is there any way, or is it done already, that the Auditor General, when he assesses your accounts, says: "If it were not for this one perennial issue, the accounts would not have been qualified"? Perhaps he says that already, but could you just explain that and then we will move on from this topic.

Mr Lovegrove: That is a good suggestion. It is an abiding problem with Government Departments' accounts that they are not particularly easy to understand for the layman and sometimes even for the expert. Trying to make it clear where there is a deserved clean bill of health and where there are technical reasons why something has been qualified is a good idea and we should look at that for next year. I do not believe that the NAO is likely to allow other problems in the accounts to slip through under the cover of this enormous qualification. They are a very diligent outfit, as you know, and we have professional and well-resourced accounting and audit personnel in the Department, so I would be horrified if that were to be the case.

Q6 **Chair:** And have they, then, made it clear? Obviously I do not have the fine detail and microscopic knowledge of their report. Have they made it clear in the report that, but for this one ongoing problem, they would not have qualified the accounts?

Mr Lovegrove: Yes, they have,[1] although that does not come out so clearly on a simple read of it and it probably should.

Chair: That is a very clear answer—thank you for that.

Q7 **Phil Wilson:** In 2015-16, The Department's spend against its capital budgets was very close to the amount voted by Parliament, and a transfer from your resource budget was required to avoid an overspend. What does that tell us about the Department's ability to manage its finances?

Ms Tulett: The financial summary at the end of the year meant that in the controllable costs, we were £141 million underspent—that is for the normal running of the Department. We underspent on two other large amounts: one was the non-budget element around impairments and the other was AME—annually managed expenditure[2]. Both were to do with the fact that we had made provision against some technical accounting requirements, where we were revaluing for assets for the impairments and revaluing largely the nuclear provision for the AME. The underspends could not be transferred to the rest of the departmental expenditure. I think page 47 of the financial summary in the accounts booklet sets that out.

Q8 **Phil Wilson:** Do you think there will be an equivalent situation in 2016-17? Can you see the same issue arising?

Ms Tulett: Given that we have a turnover of £35.1 billion, the amount of underspend—the £141 million—is landing it pretty much on the nail. With the other two areas, we sometimes have to seek budgetary cover to get them through the spring supplementaries in advance of finalising the technical accounting. At the point when we were pulling the spring supplementaries together, we were not sure whether the provision was going to be prior-year adjustment. It is always prudent to take as much cover as you need in the supplementaries, but I emphasise that that is non-cash cover; it is a rather hybrid technical Government accounting issue. The cash position—the position that most people will understand, which is a parallel with normal company accounts—would be the £141 million.

Q9 **Mr Wilson:** I want to ask about nuclear decommissioning. Has the Department made enough provision to cover the costs of decommissioning nuclear material?

Ms Tulett: We keep that under constant review every year. Last year, there were two moving parts. The NAO had criticised us previously, so we did quite a large review last year. The other large moving part was that the Treasury changed the discount rate for the future; we provide a

[1] Note by witness: Further information on the basis of the Comptroller And Auditor General's qualification can be found in the Annual Report and Accounts, Page 115 'Qualified Opinion on financial statements'.

[2] Note by witness: The non-budget underspend consisted of lower than expected nuclear provisions; the underspend on impairments was part of the resource budget underspend.

discount rate against that to bring it back to current values. We review that every year and we work quite closely with NAO to ensure that that is a true and fair position. We will do that on a continuous annual basis.

Q10 **Phil Wilson:** How many nuclear submarines have you decommissioned?

Ms Tulett: I don't know off the top of my head, I am sorry.

Q11 **Phil Wilson:** The information we have got is that, for example, HMS Dreadnought was commissioned in 1963. It was taken out of service in 1980, and it still hasn't been decommissioned, 36 years later. In fact, our information is that none of the submarines—I think there are 26 or 27 of them—have yet to be decommissioned. They are tied up in some harbour somewhere.

Mr Lovegrove: Certainly when I went up to Rosyth to see the aircraft carrier there were four tied up, in the process of being decommissioned. We will have to get back to you on that, unless Mark has a—

Lieutenant General Poffley: No, my instincts are that this is about the availability of facilities, because quite clearly the use of facilities to maintain the nuclear deterrent in its day-to-day running needs to be accommodated in this, but I don't know the reason why we are yet to have decommissioned any of them, or indeed what progress we have made in fixing the—

Mr Lovegrove: In my previous role at Energy and Climate Change, I was responsible for Sellafield and the other civil nuclear sites. Two things about that are perhaps relevant. One is, the discount rate change which Treasury applied, which Ms Tulett has just been talking about, in the context of the civil nuclear sites, led to an adjustment in the provision of nearly £60 billion, so it is an enormous technical swing. The programme of decommissioning all of our existing civil nuclear sites was due to last 120 years; there was a 120-year business plan. Inevitably, these are very, very slow processes, which take a very long time, and no risk can be taken, but I am happy to write to the Committee with more details about the actual number of submarines.

Phil Wilson: Yes; it will be interesting to know what future plans you have got for decommissioning the submarines. Will you give us particular reference to HMS Dreadnought, which seems to have been tied up in a dock for 36 years without being decommissioned? It seems a long time.

Q12 **Douglas Chapman:** My constituency includes Rosyth, so I am fairly well briefed on how the programme is coming along—or, more to the point, how it is not coming along. I think in the time I have been involved in politics in that part of the country, it has always been a very hot potato, the environmental impact of having seven nuclear submarines resting in Rosyth.

In terms of the programme to dismantle even the oldest submarine at Rosyth—across the UK there are, of course, many others—from a financial point of view, if the first experimental cutting up of the submarine is successful, would it be financially advantageous to accelerate a programme of dismantling? We have got 26 in a line that are ready to be dismantled, and I hear we are building another four to add to the existing problem. These have all finished their service and come to the end of their natural life, so from your point of view—from a financial point of view—would it be advantageous to accelerate that programme? Instead of having just one decommissioning/dismantling per year as planned, would it be better if we pushed on and accelerated?

Mr Lovegrove: In a perfect world, the answer to that is obviously yes. The quicker we can do this, the better it would be. There are two big constraining factors, though. One of them is money. We have to operate within the budgets that we have for this, and again the parallel with the civil side is absolutely precise. People wanted to go faster but couldn't, because there simply wasn't enough money to be able to do so, so it has to be sequenced quite carefully.

The second issue, which is something that has very broad application that goes not only purely into decommissioning but also into the operation of our existing fleet, is whether or not there is enough capacity in the engineering and technical base to be able to go faster. We have a dearth of nuclear engineers, and indeed to a certain extent civil engineers, right across the whole country, and that is something, as a country, we are going to have to try and deal with as the new civil nuclear power stations are being built, starting with Hinkley; as the Successor class of boat is going to be built; as we are operating the V classes of boat at the moment; and, as you say, as we get into more decommissioning. We are working quite hard with colleagues across Government on a skills strategy for nuclear engineering, broadly defined—build, operate and then decommission.

Ms Tulett: There is a note in the accounts on page 158, which one of my colleagues has just brought to my attention. It refers to the availability of a facility managed by the NDA to enable us to undertake the works that you're speaking about. We therefore need confirmation about how the totality of the programme would fit in. The provision that we've got at the moment is based on key assumptions. We will have to work on how we can facilitate that going forward, but we are not completely in control of our own destiny.

Q13 **Chair:** I just want to take this a little bit further. This problem applies to every past and future British submarine powered by nuclear energy, irrespective of whether they have nuclear weapons on them, because we don't build submarines powered by diesel any more. Sitting in various creeks and byways are a total of more than two dozen formerly nuclear-powered submarine hulls, which have had the active reactor material removed but retain contaminated reactor compartments. The Americans have a much bigger problem, because they have had many more of these submarines, and I believe that I'm right in saying that they have facilities where they dig a deep bunker, chop up the hulls, encase the irradiated reactor compartments in concrete and bury them. Why can't we do something similar? I suspect that the answer is international treaties on the prohibition of moving radioactive material around, but why can't we come to an arrangement, perhaps with the Americans, whereby they could take our much smaller numbers of contaminated compartments?

Mr Lovegrove: The Government's policy at the moment is to do exactly as you have described. The basis of the new civil nuclear programme is that there will be a geological disposal facility, which will be capable of taking all the radioactive material, civil and military[3], that we create as a nation, and disposing of it however many miles underneath the earth, and it will be sealed up and no one will ever have to think about it again, I hope. The GDF is meant to be built by 2040, and much of the civil and military nuclear policy is based on that. At the moment, a site has not been identified to the satisfaction of everybody in the local community on which to build the GDF. A site was identified near Sellafield, but local concerns from the county council stopped that going forward. I think that my former Department is taking through another consultation. It has to be done on a voluntary basis—that is the basis of Government policy. We anticipate that the solution you outline will eventually come to pass—

Q14 **Chair:** But we have to do this in this country—the Americans can't assist us in this?

Mr Lovegrove: I would have to double-check. We have certainly not been able to dismantle any of the facilities up at Sellafield in a way that would allow them to be transported, so I would imagine the same would obtain for the nuclear submarines. It is certainly the case that we can transport, and indeed do transport, nuclear fuel, but irradiated machinery is not something that we have typically transported.

Q15 **Chair:** Could you send us a note about that, and in particular about whether there is any legal bar to us trying to reach some agreement with the Americans, who have had these huge, and presumably safe, methods of disposal available for their submarine compartments, rather than having to duplicate those facilities ourselves?

Mr Lovegrove: I will very happily write the Committee a note on that. I will also double-check how the Americans do this, because I think they, too, are finding difficulty in building a disposal facility. They are typically just storing material, certainly on the civil side, near the old civil sites.

Lieutenant General Poffley: I think that is exactly the case. We have created a three-star post in the Department specifically to look at the nuclear enterprise. In the interim it is going to be headed by Mr Ian Forber, who has already been in negotiations with the Americans on that sort of issue, which is a common problem with no straightforward solution. Unlocking the facilities and the resource to enable this to be accelerated, and attending to the extent of the problem in its current form, is very high up on his agenda.

Q16 **Chair:** So how can we make any estimate at all of the costs of decommissioning when the way forward is so unclear? Do you make such estimates at the moment, and if so, on what basis?

Ms Tulett: The provision will be calculated on the bases that are described in the accounts, on the assumption that the facility will be available from 2040.

[3] Note by witness: The military radioactive waste that would utilise the geological disposal facility is intermediate level waste only. Disposal options for low level radioactive waste already exist.

Q17 **Mr Spellar:** Could I just come back to Mr Lovegrove on the question of community support? Was it the case that the local community where the site was due to be, and their district council, were in support of the project, but the rather more remote county council, under different political control, were the ones who were obstructive?

Mr Lovegrove: That is correct.

Q18 **Phil Wilson:** I have just a quick question on the nuclear decommissioning liabilities. The figure I have is £10.4 billion, is that right?

Ms Tulett: Yes, I believe so.

Phil Wilson: So is that the cost—

Ms Tulett: It will be the net present value of the projected cost of the decommissioning.

Q19 **Phil Wilson:** But if you haven't got any way of actually decommissioning, how can you come up with that figure?

Ms Tulett: That is based on the assumption that the facility will be available in 2040. If we found alternative methods, clearly we would have to revise the underlying assumptions on which that provision has been based.

Q20 **Phil Wilson:** So that figure could go up.

Ms Tulett: It could go up, and it would go up if we had the same solution sooner, because of course the net present value could be higher.

Mr Lovegrove: The accounts force us to do this, but experience on the civil side is that the idea that there are point estimates for these things is fundamentally misguided. These are very complex programmes where people could discover problems in five years' time that could mean that the whole programme gets accelerated by a year or decelerated by two years. There is a big range of simple cost associated with that.

A single point estimate is not terribly helpful, particularly when there is the long process of discounting the cost many years hence, which is very dependent on the discount rate that the Treasury would like us to apply to that. As I said, the discount rate change in DECC meant that overnight, the liability went from £70 billion to £120 billion. That was a purely technical issue associated with the application of a different discount rate.

So to be candid, you should not expect that number to be stable. It is better to think about it as a range, over which you overlay discount rate adjustments.

Chair: Thank you. That has been a useful discussion, and we will move on now.

Q21 **Jim Shannon:** The big issue for many of us in this Committee and elsewhere has been the amount of extra investment; some £26 billion of extra investment in equipment was announced in the SDSR. That relied very heavily upon £9 billion in savings. The question is: do you think those are achievable, and if they are, how will they take place? The realistic fact is that, if they do not take place, the extra investment is not £26 billion but only £17 billion.

Mr Lovegrove: You are absolutely right. The increases in the equipment programme are not entirely but in good part predicated on efficiency savings in the Department. I believe that they are achievable but very challenging. In the first place, clearly we will need to focus very tightly on cost control. One of the consequences of having an expanded equipment programme—General Poffley will no doubt wish to add to this—is that we need to make absolutely sure that we do not lose control of scope or of schedule, which puts costs up. To a certain extent, we need to ensure that the costs clearly come down.

There is a programme in DE&S that is designed to bring those costs down over the next three years. Better contracting in DE&S aims to bring in about £2 billion of savings; reprioritisation across the budgets in the defence establishment is expected to bring in a couple of billion or so; and pay restraint across the defence establishment is also expected to bring in about £2 billion. Additionally, we need to keep working every day to ensure that we are doing things as efficiently as we possibly can. Since I arrived in the Department six months ago, probably the two areas where I have spent most of my time thinking about have been the nuclear establishment and arrangements for the Successor, and looking at what we will do around the civilian headcount, which will obviously play a big part. We are also going to be investing in commercial and HR skills. It is a big challenge, but I believe we will be able to get there.

Q22 **Jim Shannon:** We hope you can do it as well. We are always very conscious of the fact that we need to set targets and that they have to be met.

The Government centrally have clearly put efficiency savings on all Departments, including the MoD. What efficiency savings have been realised in the last financial year, and perhaps you could say what your projections would be for the next four financial years—the financial years of this Parliament?

Ms Tulett: For the current financial year, we have bedded the efficiency targets out into the top-level budgets through the delegated model. It is a bit early to tell yet what has been delivered for the current year, and we are currently looking at the half-year position. The £7.5 billion efficiency target over the life of the Parliament is distributed as £0.5 billion next year, and then builds in £0.5 billion increments up to £2.5 billion in 2020-21[4]. We are actively working in the delegated model with the top-level budgets to ensure that they are executing them in a way that does not have detriment to priority outputs and operational advantage. I can get you a note on the delivery to date. Some of it will be predicated on the previous spending review efficiency targets.

[4] Correction by witness: The MOD's efficiency programme actually started at the beginning of this financial year with a target of roughly £0.5 billion, rising to approximately £2.5 billion in 2020/21.

Mr Lovegrove: Could I just add a little bit of reassurance for you? The heart of the question is whether the efficiency is damaging to the output of capability. Inevitably as you go through the process of delegation, which we have done through the reforms recommended by Lord Levene, you have seen the front-line commands in particular having greater control of their own destiny in terms of where the choices are. Laying the efficiency targets on them has been accompanied by them having more capacity to veer and haul across their programme.

The permanent secretary mentioned that we are looking to reduce the scope and requirements down to the essential bare minimums, and that those are accompanied by some provision for resilience into the future. As the operational posture changes, they should be able—in their equipment programme in particular—to design in the notion that you might actually change the output of that particular piece of force structure through time.

That is wholly different from where we have been over the previous five to 10 years. Therefore, the scope for them to attend to the efficiencies and reinvest those—that is an important component; it is in their interests to reinvest them—is wholly there down at the front-line command level. They are comfortable with that.

Q23 **Jim Shannon:** I am also keen to ask about costs. Forgive me for saying this, but sometimes you get the idea that to balance the books, a wee bit is taken from here and put into this budget there. When we have a cost overrun on a project—when costs have been higher than they should have been and run over—or when previous money is carried over, can you give us some indication of how you manage those figures?

Ms Tulett: The individual top-level budgets—the three single services, Joint Forces Command, headquarters and DE&S—are responsible for managing their own portfolios. To achieve the priority outputs that the General has just referred to, they will on a quarterly basis be recalibrating as necessary, in-year, how they are managing their resources to their in-year control total.

On an annual cycle, we look forward over the next 10 years to see how that programme is stacking up. Obviously for the lifetime of this Parliament we have the funding commitment that was given in the spending review, and beyond that, we make planning assumptions because the longevity of the programmes that we manage, as you will appreciate, requires us to look forward at least a decade and further in some instances.

I do not manage that from the centre. What we do from the centre is assure ourselves that that is happening effectively and correctly and that the capability coherence of the emphases and the priority that has been given by the commands fit in with the overall defence plan and the commitments to the SDSR.

That is a quarterly activity that you would expect any responsible organisation to do when there are such dynamic costs around some of the programmes. What we are increasingly seeing, as the DE&S reforms are beginning to mature and produce benefit, is increased cost stability, which means that alongside the longer-term financial planning envelope that we have secured, we are having less to rob Peter to pay Paul, as it were, in that portfolio management. That is a key attribute of the Levene reforms and the reforms of DE&S, so actually, rather than having a conversation about putting more funds into a programme, we have a better conversation about how to drive cost out of the programme and achieve that stability.

Q24 **Jim Shannon:** Is the MoD content in relation to the Levene report saying that service chiefs—you mentioned this at the beginning of your reply to that last question—could spend their moneys? Do you feel that that is the case? Is that happening?

Ms Tulett: It has to be balanced against the corporate dynamic and the corporate priority. Clearly, the service chiefs do have the power to spend their delegated budgets. All the time that we are able to stay in corporate financial balance, we pretty much leave them alone to get on with that.

If one of the business units was suffering new burdens, which could come from new operations, unforeseen risk or cost growth, clearly from the centre we still have to reserve the right to do a slight recalibration across the piece in order for Defence to continue to provide the operational outputs that it has to and the priority elements in the equipment programme. But it is delegation, not abrogation from the centre, so we do still manage it.

Q25 **Jim Shannon:** You seem to be indicating just how difficult and complex it is to keep the moneys all balanced in the way that they need to be. Any good business should have a reserve or contingency fund, and I just wonder whether we have that. I know that you and I are in the same boat on Brexit, Mr Chairman, so may I ask whether there is a contingency budget for the impact of Brexit? That is a by-the-way question.

Ms Tulett: In terms of good businesses holding a contingency, obviously in a Government Department we have to land our expenditure within annuality. The £141 million that we underspent last year was a pretty good financial outcome, but some people would say it was £141 million of defence equipment that we could have had but didn’t. We try to land the in-year on a very fine spot because of Government annuality. We don’t therefore hold a contingency at the centre for the current year, and we don’t hold much for next year.

Over the 10-year plan we have just over £7 billion uncommitted, so in future years, as we go through that repetitive planning cycle, we have some headroom and some ability to manoeuvre priorities as we have to respond to different operational demands, emerging threats or different equipment demands. We try to keep it tight in the near term, but preserve choice towards the end of the 10-year programme.

Q26 **Jim Shannon:** I am conscious of the time. It seems clear from your answers that you have a clear, systematic way of monitoring savings and ensuring that they are being made.

In your introduction, Stephen, you referred to the National Audit Office and its role. Is the MoD complying with the NAO's recommendations? Is there a tight relationship between the NAO and the MoD to make sure it delivers? My last question is two together. Will you be forced to cut equipment programmes if you don't achieve the savings and, if so, what will those be?

Ms Tulett: The relationship between the NAO and the Department is one that we manage throughout the year; it is not just something that pops up around the year-end accounts. We take NAO recommendations and its strategic financial management report very seriously. We are currently in discussion with it about its management letter, which followed the statutory audit. We constantly strive to implement its recommendations, because we have huge responsibilities for a large chunk of public money.

If we have to reduce expenditure or respond to emerging risks in other areas, we will have a conversation at that particular time as to which equipment elements we would reduce in the equipment programme. You are probably familiar with the fact that the NAO does an annual report when we publish our equipment programme, which we will do in the autumn, to confirm its affordability.

The General will be able to tell you more about how we go about our capability coherence decisions.

Lieutenant General Poffley: Inevitably, there is a conversation as you go through every year about what is affordable and what is not. Over the last two years we have created a document that we call an output map, which prioritises every single output that we ask the Department to conduct. That gives us a pedigree of choice should we need it, but I should stress that when you come to reconciling, it is not just about the equipment programme. That is an important part of our business, but it is but a part of our business and therefore there are other choices we can make, whether in infrastructure, the people domain or the activity programme. Those are a suite of things that we would bring into the conversation at the point at which you might want to do that reconciliation. That is done on a rolling basis as we go through every year, so not just to get inside our in-year exercise, but as we look at the programme into the next four-year and indeed 10-year cycle.

Q27 **Chair:** Just to follow up a few points, I understand that there is an independent cost estimating organisation in the Department called the Cost Analysis and Assurance Service, and that it has suggested that the equipment plan costs were understated by £5 billion, which is similar to the contingency that is held in the plan. Are you satisfied that the contingency for equipment is sufficient in the light of this possible underestimation?

Ms Tulett: I am, and that is part of the juggling that we consistently do. We take CAAS's advice. As you rightly pointed out, they are independent, even though they are embedded within the Department, and the NAO places reliance on their work. We do try to keep a sensible balance between those cost estimates and the contingency. Clearly, what CAAS will have done is take a particular view regarding the risk that is being costed in. As programmes mature, that risk either crystallises or falls away, and as we reprogramme the schedule around particular programmes, things move around as well. We and the project teams work very closely with CAAS to understand the difference between their respective estimates and to make sure that the mitigations are in the manageable space.

Q28 **Chair:** We may have covered this already, but I just want to be certain. Going back to the almost £26 billion of equipment commitments that came out of the SDSR, we know that a quarter of that is really new money and nearly £11 billion is from this headroom—this allowance for future equipment programmes. You have obviously significantly reduced your room to manoeuvre by taking out such a large sum from the headroom capacity. Whereas previously you had 8.3% uncommitted to the plan, you now have only 2.8%. All I want to ask is this: is that the trajectory that you expected to follow at this stage of these equipment plans, or is it something we should be worried about in case you needed to draw down more and you no longer had the reserve capacity to do so?

Ms Tulett: It is part of the cyclical plan, and there was a deliberate strategic financial decision taken in advance of the last SDSR to leave headroom in order to allow the SDSR to be affordable whatever the reprioritisations were, without having a stop-go attitude towards the existing programme. As we are in this cycle following the SDSR, we will see as we get towards the next one, which will not be until 2020, that if the Department follows a similar strategic approach, it may well allow there to be more headroom building up in the later years. Certainly, that £7 billion contingency I spoke of is towards the back end of the programme.

Q29 **Chair:** Okay, so a quarter of it is genuinely new money from the joint security fund, just under half of it is from this headroom, and the rest of it is all efficiency savings. You can understand why people might feel that so much coming from efficiency savings, when you have been asked in previous times as well to make efficiency savings and have done so, suggests that it is a bit of a catch-all excuse for saying, "Somehow we will always find money." I heard what you said earlier about robbing Peter to pay Paul: "We'll always find money somewhere." At what point will you actually have to turn around and say to the Government, "Well, I'm sorry, but we're pretty much as efficient as can be, and if you want to spend money on additional equipment projects or additional manpower, you will have to increase the defence budget"? When does that point come? How long can this sort of smoke and mirrors of efficiency savings be prayed in aid as a reason for suggesting that more resources are being made available when they are really just being shuffled from one part of the budget to another?

Mr Lovegrove: There may be a moment at which that happens. It is not on the horizon right now. There are certainly efficiency savings that we can get at in the Department, and our focus is on doing that and seeing whether or not we can go even further. It is only at that point that we would start engaging in the kinds of conversations that you suggest.

Q30 **Chair:** Okay. Moving on, we touched briefly on one independent organisation within your structure, namely the Cost Analysis and Assurance Service. I want to ask you briefly about the SSRO, which is another such organisation. How do you calculate the savings that will come from the activities of the SSRO? We have had some dealings with them as a Committee in the past. They are tasked with making sure the taxpayer is getting value for money when the MoD purchases from a single source without the benefit of competitive tendering—I believe that is a fair description of what they are supposed to do. Were the SSRO involved in calculating the figure of savings estimated as a result of their activities?

Mr Lovegrove: They are not involved in estimating efficiencies in the Department that we can get at ourselves in the sense of whether we need to employ X category of individual or whether we can go around a logistical exercise in a different, more efficient way. Their job is around looking at specific single source contracts, mainly in the area of equipment. It is only one part of the bigger efficiency piece that they are looking at.

Ms Tulett: The SSRO are, of course, the regulator. The regime itself will be responsible for delivering a chunk of the efficiencies that we require. It is difficult to calibrate where the SSRO's specific activities, which are an important portion of the regime but not the totality—the rule set under which single source contracts will be let, through the application of a profit rate and of allowable costs, are an important component. Those are often made through qualifying defence contracts and subcontracts without any direct intervention from the SSRO. The SSRO exist to receive transparency reports to ensure that the regime is being correctly applied. In cases of dispute, they are there to arbitrate between the two parties to the contract. Many of our contracts go into qualifying defence contracts and the SSRO do not have any proactive intervention on them.

Q31 **Chair:** But have you made a calculation of the savings that result from the SSRO's activities?

Ms Tulett: The SSRO themselves will make a calculation based on their perception of the activity they are getting involved in, and we will obviously talk to them about that. We would expect that to become a matter of public record. That is a part, but not the totality, of the savings that the regime will make.

It is also important to remember that the SSRO has two obligations. One is to the taxpayer, but they are also there to make sure we enter into fair contracts from the industry's perspective. We all wish and require to have a healthy industrial sector. Their raison d'être is not just about driving efficiency out. It is also to make sure we have sufficient investment going into organisations that enter into single source contracts with us, so that we have the longevity of their existence and can get benefit out of the totality. They are not solely there to drive efficiencies out; they are also there to make sure the industry gets a fair deal.

Q32 **Chair:** Isn't it a fairly open secret that—at least in the past—the SSRO has been unhappy about the very low number of contracts and projects referred to it in relation to the number of such contracts and projects that derive from single sources?

Ms Tulett: A referral only needs to be made to the SSRO where there is a dispute between the two parties. I can give you a note of the number of qualifying contracts we have entered into and the number we have referred to the SSRO. We do not refer to the SSRO many of the qualifying contracts we enter into because we just follow the law and the regime.

Q33 **Chair:** The SSRO must presumably be well aware of these rules, yet it has been brought to the attention of this Committee that in the past—not the distant past—it has felt it is not being sufficiently involved in enough of these contracts. It feels it is being under-utilised—I would not go so far as to say sidelined, but certainly under-utilised. It must be as aware of the rules as you are. Why do you think it feels like that if there is not some basis for its concern?

Ms Tulett: We have had a number of conversations with the SSRO. I think we need to be more full and transparent with the management information that we share with it, but we would only refer contracts to it if we were in dispute. We have not been in as many disputes as was perhaps anticipated when the SSRO took up its role.

Q34 **Chair:** Finally from me, because I know Johnny wants to come in briefly and then we will move on, the NAO produced a document, "Impact of the Strategic Defence and Spending Review on the Equipment Plan". That reported that you had said that £1.7 billion of savings had derived from the SSRO's activities. Are you familiar with that figure?

Ms Tulett: I am not familiar with the quote that you are making. I need to double-check whether that was the application of the regime or the SSRO's actual interventions.

Q35 **Chair:** All right. It would not be fair to press you because you have not had notice of that. Sorry to ask for notes, but could you give us a bit of a summary of the concerns that I have been expressing about the SSRO and check that particular point? That would be fine.

Ms Tulett: Fully understood.

Q36 **Johnny Mercer:** On the SSRO, you said you only refer contracts to it where there is a dispute, but one of its key roles is to make sure there is value for the taxpayer. How does it know there is value for the taxpayer if you do not refer a contract to it?

Ms Tulett: There is another mechanism it has oversight of, which is transparency reports that come from all qualifying contracts, so it can see how the underlying costs are being calculated within the contracts. There is a difference between its assurance mechanism and us referring stuff to it for its role as an arbiter.

Q37 **Johnny Mercer:** Do you have to do anything about that assurance mechanism or can you basically ignore it? If the SSRO says it is not entirely content that the taxpayer has got value for money from a contract, can you essentially say, "Thanks for your concern", and move on?

Ms Tulett: I am not sure, technically, whether we could, but it would not be in our interests to do that, given, as we have discussed, that we have quite a large efficiency target that we have to deliver on. We take very seriously the application of the single source regime and the benefits that can derive for the taxpayer through getting more efficient contracts. The SSRO shares information with us regularly and we communicate back to it where we are on things on a regular basis. I meet with the chair and the chief executive on a monthly basis and there is constant staff level discussion. I do not recognise that we are letting inefficient contracts go through, or that we are not picking up benefits from the regime. We have to apply the regime. The SSRO is part of that; it is not the totality of it. We operate the regime and the SSRO obviously has an independent assurance and arbitration function over that.

Q38 **Mr Spellar:** Earlier on we talked about the legacy nuclear programme. Looking forward to the Successor programme, what progress have you made in appointing a new Director General Nuclear, and are you still considering creating a special purpose vehicle or submarine delivery authority to deliver the Successor programme? If you are, will that ultimately report to the Ministry of Defence or the Treasury?

Mr Lovegrove: As General Poffley mentioned earlier on, we are certainly pursuing setting up DG Nuclear. We have, in fact, actually set up the group in the Ministry of Defence already. It is being run on an interim basis by a colleague, Ian Forber—at three-star level. I paused the permanent recruitment of DG Nuclear when I arrived in the Department because I wanted to make sure I wasn’t rushing into something that I did not feel I had an opportunity to look at carefully, because it is a very important role. I am completely content that it is the right thing to do. We are about to start the recruitment process again and I would hope we will have a permanent appointment in place pretty soon.

In terms of the submarine delivery body, that is part of Government policy. It was mentioned in the SDSR and it was also mentioned in the autumn statement last year. We are pursuing its establishment at the moment. A group that is chaired by me in the Department meets on a regular cycle to discuss all of the institutional architecture around the delivery of the Successor and the other submarines. We would hope to have the submarine delivery body set up in some form, possibly in some version of shadow form, by the beginning of the next financial year—April 2017.

On the senior officials group that I chair to discuss this are very senior officials from the Treasury and the Cabinet Office and obviously from the MoD as well. There has not been any suggestion that that group would report to anything other than the Ministry of Defence and I do not anticipate that that would be the case.

Q39 **Mr Spellar:** Thank you. That is very helpful. Moving on, what element of the nuclear enterprise does the £10 billion contingency announced in SDSR cover, and over what time period? Can you give a rough estimate as to what percentage of the cost the contingency covers?

Mr Lovegrove: I slightly look to colleagues on this. The budgeted cost of the four Successor boats is £31 billion and the contingency is meant to cover the whole of that £31 billion, right up until the final boat is launched, which I think is in the mid-2030s.

Lieutenant General Poffley: This is a 35-year programme, so that funding stream was assigned over that period of time. The contingency is there purely because our experience to date on these sorts of projects would suggest that that is about the level we ought to pitch it at. It has been calculated on an experience basis, given what we know about the nuclear programme in its current form, but it is a 35-year programme.

Q40 **Mr Spellar:** Will those costs be on the Ministry of Defence budget or on the Royal Navy's budget, in your internal accounting?

Mr Lovegrove: I think it is to be determined, but I think it is very difficult to imagine that, if the full extent of that contingency were to be used, or have to be used, you could put that on to the Royal Navy. I think that would hollow out the rest of the Royal Navy very quickly. So I think there would have to be quite a lot of rather difficult conversations around the Ministry and indeed with Treasury.

Q41 **Mr Spellar:** Given the delays there have been in the programme, how confident are you that the vessels will arrive before the out-of-service date or problems possibly arise with the current fleet?

Mr Lovegrove: I do not think I recognise that there have been too many delays around the programme so far. We are at the beginning. I will not say that there is not the potential for delay, but I do not recognise that there are too many delays at the moment. We must have the boats ready to be in the water when the V-class is retired.

Q42 **Mr Spellar:** Which is when?

Mr Lovegrove: I do not have the waterfall. I think that the last V-boat comes out of the water in the 2030s. It is absolutely imperative that the nation has continuous at-sea deterrence. Everything we are doing and designing around the submarine delivery body, the submarine alliance and the DG Nuclear is designed to make sure that CASD is maintained for the nation.

Q43 **Mr Spellar:** It would be helpful if we could have a note as to the timescales of those coming out of the water and those going in, the necessary overlap and how much leeway we have in that programme. Finally, on a very topical issue, the MoD stated: "we will source steel from the UK, where possible". Why are you now sourcing steel from France rather than from the UK?

Mr Lovegrove: I do not believe there was any British steel we could source for this particular issue, so that is the main reason.

Q44 **Mr Spellar:** Did the Department inquire about that?

Lieutenant General Poffley: I think it did. I need to check from the DE&S, but my understanding was that these were specialised steels—

inevitably, given the nature of these boats—and that the steel was not in production in the UK, nor was there the capacity to do so.

Q45 **Mr Spellar:** Was not or could not be?

Lieutenant General Poffley: I do not know the answer to that, but my understanding is that they could not source from the UK. The reasons for that I am not privy to.

Mr Spellar: We would be grateful for a supplementary note on that as well.

Q46 **Chair:** Just to interject briefly, there has been a suggestion that a UK source wanted to carry out further examination as to whether it could supply the necessary steel, but the decision was taken before it could do that. There may have been good reasons to take that decision without further delay, not least to do with maintaining continuous at-sea deterrence, but if you could explore that, as John suggests—

Mr Lovegrove: With pleasure. I suspect that is absolutely right. We know that small delays at the beginning of programmes like this can turn into big delays at the end of them. Notwithstanding the desirability of being able to use British steel and British components as much as we can, those are not risks that the Department, Ministers or I would be comfortable in taking.

Q47 **Douglas Chapman:** I have a couple of questions that come out of those answers. You are saying that the submarine delivery authority will not start until April 2017. How do you account for that gap? A contract was announced last week worth £1.3 billion to deliver part of the programme. Who is scrutinising the spend on this, if you are already spending money on parts of the programme but we don't have anybody overseeing the programme as it exists apart from yourselves?

Mr Lovegrove: I should have been clearer earlier when I said that the establishment of the submarine delivery body will be in April '17. We should not interpret that as saying that there are not professional, experienced people doing these functions at the moment. In the Submarine Operating Centre at DE&S, there are about 1,000 people operating and doing this kind of work. It is not the case that there is a vacuum—far from it. There are people intensely engaged in this enterprise right now. The point of the submarine delivery body is to provide focus and an additional layer of expertise to this enterprise for the future in a durable way, but that is not to say there is nothing going on at the moment; that is very far from the truth. There is a lot of activity going on.

Q48 **Douglas Chapman:** The life of the current Vanguard submarines has been extended. What are the cost implications of that extension? As submarines and complex technical equipment get older, it is much more difficult and expensive to run them. What special measures have you put in place to account for that? Does that not also suggest significant delays in the programme if their lifespan is being extended?

Lieutenant General Poffley: Certainly, the maintenance of those boats continues as planned. We have provisioned inside the programme to cover the extension of their life. I am not aware of any significant challenges in that regard. They have certainly not been highlighted to me. As far as I am aware, the provision that we got inside the programme for the routine maintenance of those boats covers the cost that is required. So I am not aware of a problem that would suggest that we have a difficulty there.

Q49 **Douglas Chapman:** Just to clarify; I lost the train of your discussion, at one point, about the contingency of £10 billion for the programme. Are you saying that that money actually exists now; so, for example, if that £1.3 billion contract that I described earlier suddenly became £1.8 billion, would that difference of £0.5 billion come from the contingency, and is that money there, or does it come from existing resource?

Ms Tulett: At the moment, for the 10-year plan, we have £1.35 billion nuclear contingency within that overall £7 billion. That is for from now, for the 10 years. The £10 billion that was mentioned in the SDSR as contingency for the totality of the Successor life obviously goes beyond that 10-year point as well, and in so far as I do not know what my funding is going to be beyond the 10-year point and I have not got an absolutely copper bottomed plan beyond the 10-year point, it is a marker in the sand that the first call on our future funding, from year 11 through to the middle of the 2030s, will have to provide for that £10 billion contingency.

Q50 **Douglas Chapman:** That £10 billion does not exist out there at the moment.

Ms Tulett: No, because I do not have funding at the moment for anything that—I do not do a plan beyond the 10-year in its totality. So the £10 billion is a commitment in the SDSR that we will have a contingency. On the near term, which I do have firm plans for, and obviously for the current Parliament have committed funds for, in the 10-year plan, we have got set aside £1.35 billion for nuclear.

Q51 **Douglas Chapman:** So the £10 billion: would there be an argy-bargy between the Treasury and the MoD—

Ms Tulett: No, it will be a first call on our funding levels, whatever they transpire to be, from year 11 through to the 2030s.

Mr Lovegrove: It is not the MoD saying "We are going to stick in a £10 billion contingency for this programme." This is obviously something which was discussed and agreed with Treasury at around the time of the SDSR, so I think there is understanding and acceptance of the fact that this is a very long-term programme with very large sums of money involved.

Douglas Chapman: I am sure you have got tremendous faith in your Treasury colleagues.

Chair: Douglas, I know you want to come on to ask about carrier strike but as Mr Shannon has to leave us in a few minutes I am going to change the batting order slightly. Jim, you have some questions about manpower.

Q52 **Jim Shannon:** Mr Chairman, thank you. Stephen, you have mentioned, as I think Louise has, civilian staff and the impact that will have. What progress is there in meeting the target of cutting the civilian numbers by

30% by 2020; and how can you achieve this without hurting, as the general said, what you want to deliver?

Mr Lovegrove: I am not going to pretend that it is not a challenge. As I say, I have been spending a great deal of time with General Nugee, who is the Chief of Defence People, who now reports not purely through a military line but to me, as well as with the Vice Chief of the Defence Staff, thinking about this.

What we need to do in the first place is to find out exactly what all the civilians in the defence establishment are actually doing. That is not as easy as it sounds. There are, I think, 58,000 of them at the moment. Some of them are doing roles which are absolutely integral to military outputs—in fact, you could say more of them are. Particularly in, for instance, the cyber area, many of the most relevant skills do not come from the military. They come from civilian life. So we need to identify and distinguish between those kinds of skills and possibly other types of activity which do not need to be done by civil servants working for the Ministry of Defence. Working out that baseline is absolutely the first thing that we need to do, and we are going through that process at the moment.

Once we have done that, we can decide where we want to address our fire. We need to do that as quickly as possible, because it has been very clear to me as I have been going around defence establishments around the country that the level of uncertainty and disquiet that is associated with that target among our civilian workforce needs to be addressed as quickly as possible so that people know what kind of organisation they will be working for or if there are going to be any changes in their status. So we need to get on with that and to announce the plan.

I will say two other things briefly. There is a financial target associated with that plan, which I think is about £365 million by the end of the spending review period. That does not quite equate to 30% off the headcount, so there are some quite complicated things we need to do there. We need not only to hit the financial target, but to do our best to get to that 30%.

The other thing is that it is a programme that is not going to happen just like that. We are talking about 15,000, 16,000, 17,000 people. Getting that right in a way that does not disrupt either military outputs or the morale of the civilian workforce in a damaging way is something that we will need to take in a phased kind of way, but at the same time, as I said, we will need to be communicating very, very openly. I am reasonably hopeful that we will be able to do that, but it is not a small undertaking by any stretch of the imagination.

Q53 **Jim Shannon:** Thank you for that. Your annual report and accounts identified recruitment and retention of staff and shortages in specific skills, and I think you have indicated that in your reply to the first question. I just want to underline it again because it is very, very important. Can you assure the Committee, in relation to the retention of staff and the specific skills that they have and that we need to have, as you rightly say, for the effective running of the armed services, that the headcount reductions will not exacerbate these problems?

Mr Lovegrove: It is an absolute priority for me that that does not happen. I should say that, within an enterprise as large as defence, it is entirely possible—in fact, likely—that there are going to be areas where we are actually going to be putting on headcount rather than taking off headcount. If General Poffley and his colleagues make it clear that there are specific skills that we need in order to be able either to maintain vital bits of kit or to develop capability to deal with adversaries who are becoming themselves more capable on a daily basis, that is something that we are going to take very seriously and we will probably respond very positively to. Does that mean that there may be bigger pressures in other parts of defence? Possibly it does mean that, but the idea that there is some kind of 30% haircut that absolutely everybody is going to take—that is not going to happen.

Q54 **Chair:** Just one more thing on that. We often hear about the moves that are made to replace permanent civilian staff with contractors. Is that value for money? Will there be savings? It is not always clear whether relying on contractors or transferring staff to private sector organisations saves money overall, so can you demonstrate any evidence that getting these people off your books and then dealing with private contractors does not end up costing us more money?

Mr Lovegrove: We have some evidence, and I will ask Ms Tulett to go through that. I would say a number of things about the basic position with regard to contractors. I agree with you: using contractors is not always a very good idea, and indeed if we can perform the functions ourselves, we should perform the functions ourselves. It is ridiculous to adopt any other approach and flies in the face of common sense as far as I am concerned.

We need to look at whether contractors will always be required in certain areas. However, there are certainly some situations in which contractors can make a good contribution: if they are bringing special skills; if they are capable of upskilling our existing workforce and leaving a legacy of improved professionalism behind them; and if we have some form of surge capacity that we need to be able to meet without wanting to embed, on a durable and enduring basis, a headcount that we will find difficult to move on afterwards.

I have a nuanced approach, I hope, to contractors. I would like to see as few of them in defence as is consistent with sensible principles of economic management. We are certainly bearing down on them and we are certainly bearing down on some of the more high-price ones. But, in a whole force that ranges from Regulars right down to contractors, there will always be a role for contractors.

Chair: My plan is to try to finish as near to 11.30 am as possible. We have covered a lot of ground but a fair few topics still remain. We should all now try to exercise a little more conciseness in questions and answers. Douglas, you have a question on the carriers.

Q55 **Douglas Chapman:** How well are we progressing to meeting the target of having a carrier strike capability in 2020?

Lieutenant General Poffley: I think that schedule is on schedule, and it is currently within its budget, which is good news. Since we rebaselined the programme in 2013, there have been no changes to that schedule, or indeed its budget.

HMS Queen Elizabeth is currently doing the final parts of her systems integration and there is some thermal paint going on to her deck. We anticipate that she will leave Rosyth in spring next year for her first sea trials. She will then transit down to Portsmouth and will inevitably then be taken on to the books of the Royal Navy during the course of 2018. We are on schedule to achieve the initial operational capability carrier strike in 2020.

Q56 **Douglas Chapman:** And HMS Prince of Wales?

Lieutenant General Poffley: HMS Prince of Wales is proceeding ahead of schedule at the moment. She has just completed her build and is about to go into the outfitting of the systems inside her. We have been very pleased with the progress that has been made with HMS Prince of Wales. It is testimony to the fact that the Aircraft Carrier Alliance has brought together an incentivised programme that has learnt the lessons from the build on HMS Queen Elizabeth, and has allowed for an accelerated programme.

I do not anticipate that she will necessarily move away from Rosyth any earlier than we had scheduled because this is about maintaining skills. A number of skilled workers will inevitably need to move across from HMS Queen Elizabeth to HMS Prince of Wales for the outfitting and systems integration phases. We will see where that takes us, but the programme is on schedule and currently to cost.

Q57 **Douglas Chapman:** On full deployment, General Sir Richard Barrons wrote in *The Daily Telegraph* in September, saying that you could not afford to either fully deploy or to see aircraft carriers damaged or lost. From a financial point of view, are you making contingencies to fully deploy both carriers?

Lieutenant General Poffley: We are making plans to fully deploy both carriers. We have committed to at least one of the carriers being available 100% of the time. The schedule that we are working through at the moment envisages that happening.

Q58 **Douglas Chapman:** Fully deploy what?

Lieutenant General Poffley: Fully deployed. So that we would have one carrier available 100% of the time.

Q59 **Chair:** To deploy either an amphibious task force or a carrier strike task force, we need to protect it with Type 45 destroyers, with frigates and submarines. Has the Navy got enough ships and submarines to meet its existing obligations and then, additionally, safely deploy a carrier group?

Bear in mind that the total of frigates and destroyers, which was 35 in 1997, is now only 19.

Lieutenant General Poffley: We have inevitably prioritised the task for the Royal Navy, as I was describing earlier. The principal task inevitably centres around protecting the continuous at-sea deterrent, but the carrier is the second major strategic task. Beyond those two tasks, clearly there is some choice as to where you would deploy the fleet, but there are certainly sufficient destroyers and frigates to maintain the first two primary tasks. We have started some pre-concept work on the establishment of a general purpose frigate fleet and we anticipate that restoring volume to the Navy over the period of the following decade or so. The final work on that is progressing at pace.

Q60 **Chair:** Time and again we hear rumours that the Royal Navy's annual budget is underfunded to the order of £250 million to £300 million a year, and that this lack of cash-flow flexibility is one of the reasons for the delays in getting cracking on the Type 26 programme. What impact have the delays to the Type 26 programme had on the budget for that programme, and is there insufficient flexibility in the annual budgeting, which could lead to a much greater cost further down the line?

Lieutenant General Poffley: Inevitably, a delay to a programme will potentially drive cost into that programme in the later years, but I would say that the Type 26 programme is fully funded for the vessels that we have committed to. The Navy's programme, like many, is inevitably under pressure, but we anticipate that at the end of this financial year we will have reconciled its budget. At the moment, that should not affect the Type 26 programme. The Committee will be aware from a previous session that there is work under way with BAE Systems to determine the cost and schedule for the Type 26 programme. That is still under negotiation with them, therefore the cost base of that programme is not yet set.

Q61 **Chair:** Shouldn't we be getting a move on urgently with the design of the general purpose frigates, given the fact that we do have other commitments such as in the Falklands and the Gulf? Already, the pathetically low number of frigates and destroyers are stretched with our existing commitments. The whole point, surely, of the general purpose frigate is that we might at last be able to begin to increase the number of platforms to meet the extra burden that guarding the carrier strike force is going to lay on the fleet.

Lieutenant General Poffley: I agree that a degree of urgency is required to commit to a design for the general purpose frigate. That is why there is an accelerated programme, which is currently working at pace to commit to a design. You will appreciate that is a complicated business, because it needs us to match some requirements for the general purpose frigate not just to the contemporary problem set that we see on the seas today, but into the next decade. Quite clearly we need to commit to that programme at pace, and I would have thought it will undoubtedly require us to have something to say about it later, by the end of this calendar year, but we are not in a position to do so yet.

Q62 **Chair:** Are you satisfied that the Treasury will be sufficiently understanding and flexible to recognise that in the creation of these new classes of warships there will be times when it needs to make, or allow, adjustments to the annual budget to enable costs to be saved in the longer term?

Lieutenant General Poffley: I am absolutely confident that the Treasury are aware of our plans and have been engaged in them over the course of the last six months or so. They absolutely recognise the imperative and they absolutely recognise where the cost associated with those frigates will be.

Q63 **Chair:** We are going to come on to questions of morale at the end, but may I ask finally, why is it, given the radically reduced size of the Royal Navy, that there are question marks at the moment over our future ability to man, for example, the carriers, even though these very large ships have surprisingly small complements of men and women aboard?

Lieutenant General Poffley: First, I do not recognise that there is a problem with manning either of the carriers. We have made provision inside the programme and the Navy has drawn up plans to man both carriers fully, so I do not recognise that problem as you have described it.

Q64 **Chair:** Okay, and how combat-ready are we? We are engaged on these long and medium-term programmes. We listen to the news. We hear perhaps rather—I won't use the word insane, but shall I say reckless statements about possibly even joining aerial combat with Russia over Syria. What would we actually be able to do if a crisis arose at very short notice? Are we in danger of facing too much hollowing out of the armed forces and not enough regeneration capacity, if ever, God forbid, we needed to have a major increase in our fighting capabilities?

Lieutenant General Poffley: Are you talking about carriers specifically?

Chair: Not specifically carriers. I am talking about the Royal Navy in particular, because it is the Royal Navy that has these major equipment programmes, including the carriers, that are nevertheless proceeding at, shall we say, a majestic pace towards conclusion in the medium term.

Lieutenant General Poffley: There are a series of standing commitments that the Navy has to maintain: protection of the carrier, protection of our territorial waters and inevitably, the contribution to coalition operations in places like the Gulf. There is no constraint on the operational commitment of those assets on a day-to-day basis. Whether you can take on more or not is inevitably scenario-dependent and will require a degree of force generation to take place.

Q65 **Chair:** Let me give you just one example. Supposing it was decided that we needed quickly to increase the number of F-35s that we buy, would we have the pilots in training that would be able to fly those planes, if there were a sudden deterioration in the strategic security ceiling?

Lieutenant General Poffley: We have a number of pilots who are inevitably scheduled to convert on to the F-35. There is a choice. You can take a risk and not operate other platforms in order to prioritise into the F-

35 programme. However, the F-35 programme is a multinational programme of which our offtake of those aircraft is very precisely now calculated through until 2025 and beyond. Therefore, we have already provisioned for those aircraft in particular to have the requisite pilots, such that they can embark on to the carriers at the requisite time during the course of ’18 and ’19. That then heads to the headmark of 2020, when we first declare we have a carrier strike capability, albeit limited at that stage.

Q66 **Chair:** Finally from me, do you expect this year’s equipment plan to show any major changes in the programme budget?

Lieutenant General Poffley: The intention is to try and bring some stability to the equipment programme, such that we avoid the volatility of the past and by extension, the corrections that we have had to make in the past. At the moment, I believe the programme to be very stable and affordable.

Q67 **Douglas Chapman:** Going back to the financial point of view, there are a number of huge big-ticket items in the current plan. There just seems to be a lack of joined-up coherence between what is actually acquired from a capability point of view now or will be required in the sequence. Do you have any comments on that? For example, the Type 26 is delayed and that might have an impact on other ships that probably should be coming out of service in the early 2020s. We are not going to have ships ready enough in time to take over. We have heard about the nuclear board, for example. There seem to be gaps emerging that show this is not a seamless process.

Mr Lovegrove: I defer to General Poffley, but I don’t think my experience of the Department so far has borne that out. It is certainly the case that we have a very big—now even bigger—equipment plan that is being dynamically managed. There are certainly components of it that we sometimes need to accelerate and sometimes need to decelerate and all of that, but I do not recognise a picture that gives us big gaps in absolutely necessary capability going forward. Indeed, I think that most of General Poffley’s staff are engaged in making sure that that doesn’t occur.

Lieutenant General Poffley: We conduct an annual exercise—indeed, we are just coming to the conclusion of this year’s exercise—in which we do an audit of every piece of capability that we are currently holding and its projected programme into the future. We adjust the programme on an annual basis to accommodate gaps where they appear. Inevitably, as the world changes, so our programme must change to accommodate those threats that have emerged. It is always in some flux and there is always a dynamic activity under way to correct those gaps where they appear, but we are looking 10 or 20 years hence. Inevitably, you could draw that there is a gap in one particular part of our force structure and capability set, but those are well known now and programming action takes place on an annual basis to correct that.

Q68 **Johnny Mercer:** General, did I hear you right? There is no manning crisis in the Royal Navy at the moment?

Lieutenant General Poffley: No, I didn't say that. I said there was no problem manning the two carriers. So if there is a concern about the carrier-manning, that is not the case. I would suggest that the Navy has a challenge in manpower, as do the other two services, and I think that is a broader problem set. Theirs is acute, particularly in marine engineers and some specialist trade groups, such as nuclear engineers. But they currently have a plan to address that and we monitor the progress on that on a daily basis.

Q69 **Johnny Mercer:** What would you say to those who say we were quite busy making people redundant in the period between 2010 and 2015 and now we have a manning crisis? Is that particularly good planning?

Lieutenant General Poffley: Again, one needs to be careful how one characterises this. I am not sure I would describe it as a manning crisis. There are certainly manning challenges, and if you look at the percentages we are talking about here, across defence they are relatively small. They tend to affect very niche trade groups, and that is where there are real pressures, particularly in pinch-point trades, which all three services have.

Q70 **Johnny Mercer:** Forgive me, but could you reassure people in Plymouth who have been made redundant, who may be marine engineers, that we are not now looking to recruit those very same people and skill sets that we laid off five years ago?

Lieutenant General Poffley: If we certainly have got marine engineers, or any of the pinch-point trades, that were previously been laid off, they have not, as far as I am aware, been highlighted as trade groups that would now be brought back in. Because many of those trade groups were protected at the point when we made many of the redundancies.

Q71 **Johnny Mercer:** Okay, excellent. Thank you. I will move on to the MOD estate. This is particularly pertinent in Plymouth; we have just heard that Stonehouse is being closed. There was also a leak last week from the MOD, talking about the Citadel being laid off. How much money do you expect to raise from the reduction in the size of the MOD estate?

Lieutenant General Poffley: We have not made a prediction on that. There are some targets that have been laid on the Defence Infrastructure Organisation and the strategic business partner for disposals of the estate.[5] Inevitably this, like many of these things, is volatile and very heavily dependent on land sales on a particular Wednesday afternoon where you may wish to consider a site for sale. Our approach has been to identify those sites that we believe are to be core from a capability-based point of view. A programme has now been constructed, which will last through to 2035[6], for how you might rationalise the estate and release some 30% of it. We need to be clear: this is an imperative that must be done if we are to make this an affordable proposition going forward.

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[5] Note by witness: By virtue of their role in running DIO the strategic business partner (SBP) is responsible for managing the organisation to achieve the disposals target given to it. However, there is no specific disposals target in the SBP contract, instead the SBP is incentivised to drive delivery of disposals by the payment mechanism through which they receive an agreed percentage of net disposal proceeds.

[6] Note by witness: As set out in the 2015 Strategic Defence and Security Review, the estate optimisation programme is targeted to deliver a 30% reduction in the built Defence estate by 2040

Q72 **Johnny Mercer:** Absolutely. I think it would be fair to say that within the military communities everybody understands the need to provide adequate housing, real estate, training facilities. I do not think anybody has a problem with that, and that is not up for debate. Can you confirm that 100% of that cash that is being realised will go back into the defence budget?

Lieutenant General Poffley: As far as I am aware, absolutely yes.

Johnny Mercer: Yes?

Lieutenant General Poffley: Yes.

Johnny Mercer: Is that your understanding as well, Mr Lovegrove?

Mr Lovegrove: Yes. We have had, as you know, some very aggressive targets placed on us, not only in terms of the overall reduction in the built estate but also land that needs to be released for housing. We are working very, very hard on that at the moment. It is, I think it would be fair to say, quite tricky. We are meant to have released enough land for 55,000 houses by the end of the Parliament. We are on track at the moment: we can see 47,000. That still leaves us 8,000 to go and, of the 47,000, very far from all of it is low risk. A lot of it is high risk. This is another big challenge for the Department coming up. I am absolutely certain, however, that, rather than be guided in defence by targets laid on us by the centre of Government for housing and other things, the first thing that we must do is to make sure that we have an estate which works for the armed forces. That is the first, second and third priority as far as I am concerned, and that does inject some tension into the system.

Q73 **Johnny Mercer:** Thank you. I think question 15 has been answered, Chair, so I am going to go on to question 16.

The footprint strategy is really important for places such as Plymouth, where the local community is completely interwoven with the military. Why have there been delays in producing it? Are we going to get to a place where there is a clear strategy, so that everybody understands that we are trying to optimise the defence estate to singularly configure ourselves towards fighting power, which you have just talked about?

The trouble at the moment is that a month ago we had an announcement about Stonehouse in Plymouth, and then last Wednesday there was a so-called leak from the MOD about the Citadel. When that announcement came out about Stonehouse, we were told the Citadel was going to be okay. Now we expect an announcement shortly, in the next week or so, from your Department about the Citadel.

My problem is that the lives of families—servicemen's and service families—are associated with this stuff. If we laid out to them a strategy that said, "This is the direction of travel, but you are going to be retained in the Plymouth to work area, it is part of a great strategy and you are looked after," people would not have a problem it. The trouble is that is dripped out in a sort of drip, drip, drip strategy and I just really do not understand what is so difficult about putting out a strategy and sticking to it, rather than people finding out by rumour down the pub, or on social media, or in the media that actually their home is going. These are people's homes and I find that quite difficult to understand. Is that fair?

Mr Lovegrove: I recognise your point and I am going to take away from those observations that we need to think more carefully about the communications strategy here. You are quite right: these are people's lives; these are people's homes; these are people's families. Since I joined the Department I have been spending a lot of time with the Defence Infrastructure Organisation, the strategic partner there, CarillionAmey—all of those. We are clearly not quite getting this right at the moment. The communication of the footprint strategy, the future accommodation model—all of these things are interwoven together.

I think we do actually have a big strategy: it is 30% of the built estate by 2040 and the housing targets that I have talked about. Where you are homing in, and it is a very good point, is that because of the complication of working out whether or not certain sites are to be retained, and if they are not to be retained, what the planning situation is and where we can rehouse and re-accommodate people and functions—all of those are quite complicated—it is possibly leaving us with things coming out in chunks and bits, which is probably not helping some of the communications. To be honest, an element of that is inevitable. I have had a look at some of these specific sites, and they are all different in different ways. They have different capability, resourcing and planning issues, and so on, but the points that you make about whether we can make sure that our communication strategy is telling a consistent story, and that if we are going to make announcements about particular areas we should try to trail them properly, are all good points. I don't think it is ever going to be perfect, given the complexity of the thing, but I take your points.

Q74 **Phil Wilson:** Since the Defence Infrastructure Organisation signed a contract with Capita for £400 million in 2014, you have had four chief executives and there has been a big turnover in senior staff. Capita has brought 25 of its own staff into the management structure. Lord Levene has been very critical of the organisation. Is it a coincidence that these problems arose when you signed a contract with Capita? Are there problems with Capita? There is another project with Capita for recruitment, the Recruiting Partnering Project, and according to the information I have here, in 2014 Capita had made a £100 million profit over two years. With these continuing problems with the DIO, do you think it is a very good idea that you have Capita in there helping you to run the organisation?

Mr Lovegrove: The attrition rate of CEOs at DIO is extremely regrettable and is something that I am very unhappy about. You are absolutely right that we are paying a lot of money to our strategic business partner in order to bring capability and expertise to that organisation, and I want to make absolutely sure that we are getting our money's worth. We are having a hard look at the arrangements at DIO at the moment. There is a review going on, and we will be reporting the outcome of that review to the Defence Board in December. I would not want to pre-empt anything associated with that, but is this high up the list of things to get right? It certainly is.

Q75 **Phil Wilson:** What kind of timescale have you got?

Mr Lovegrove: I cannot, off the top of my head, remember which of the Defence Boards it is coming to. I think it is the November one. We can let you know. If there is any form of decision associated with that that we can release, we can let you know that, too.

Q76 **Phil Wilson:** The other point is that satisfaction with the overall standard of service accommodation has fallen this year, too. It has fallen the sharpest among those living in service family accommodation. What are you doing to remedy that, considering that the Public Accounts Committee has published a report that says: "The Ministry of Defence and its contractor CarillionAmey are badly letting down service families"?

Mr Lovegrove: CarillionAmey did not do a remotely acceptable job in fulfilling the contract that we let with them. The concern among service families bore in on me very sharply at that PAC hearing and the conversations I had with the service families associations. It is a very high priority indeed for General Nugee.

We put CarillionAmey on what was called a "get well" programme, where they had to fix what they were up to. They had fallen down on about 30 of their key performance indicators and had to get that down to zero by a couple of weeks ago. They have got that down to zero. They have put a lot more people into the performance of that contract. It is not clear to me that they are making a huge amount of money, if any, out of it as a result. I have had some very straightforward conversations with CarillionAmey, and it is something we need to get better.

At a higher level, Lieutenant General Poffley said earlier that when there are pressures on the budget, there is a range of places you can go—equipment, activity, manning levels and so on. We also mentioned infrastructure. My observations are that over the last 20 or 30 years, infrastructure has been one of the places we have gone and we have gone too often. We need to get this estate into a place where it is sufficiently smaller and sufficiently looked after that the kinds of problem you are talking about with the service families go away over a period of time. This is not going to happen overnight; it has been a long-term problem with a long-term gestation. It will probably be quite a long time before we get it fixed, but it is something we really do need to get fixed.

Q77 **Johnny Mercer:** In terms of the 1% pay rise that has been arrived at, everyone understands the financial constraints we are currently under. We consistently—certainly within general staff—trawl out the line that people are our greatest assets, and yet some would weigh that up against the eye-watering amounts of money that seem to get written off within the Department. What is the view now within the general staff on that 1% pay rise? Is it fair?

Lieutenant General Poffley: I think as far as the military are concerned, 1% is a sensible measure, set against what else is going on in the broader society. You cannot isolate the military and assume that we are not going to need to play our part. This comes to the heart of what the offer is. It is not just about pay; it is about a whole raft of things—activity, living accommodation, spousal opportunities and so on. A raft of different factors play into whether this is a good thing or a bad thing for the military. From our point of view in the military, a 1% settlement is very attractive and it is retaining people, but you need to set it in the context of the broader society.

Q78 **Johnny Mercer:** That obviously goes against the picture of your continuous attitude surveys. I know that you can argue with some of that data. In terms of retention challenges in the military and the balance in the commitment people make—is the juice worth the squeeze?—are you happy we still have that balance right as a country?

Lieutenant General Poffley: I think in general terms, yes. There are some very specific trade groups where that balance is arguably out of kilter at the moment, and we need to do some work to address it, but those are communities that you see in broader society equally under pressure and very attractive to quite a lot of big companies elsewhere.

Johnny Mercer: Thank you very much.

Mr Lovegrove: There clearly has been a change from, say, five or six years ago, when the number of serving personnel was coming down, and now we need to move it up. That change is not necessarily that easy to enact immediately, but there are signs that it is working. Recruitment has been up 16% in the last two years. The number of leavers was 20,000 two years ago and is 13,000 this year. You can see that the picture is beginning to change, but there is a long way to go.

Johnny Mercer: Great. Thank you.

Q79 **Chair:** We are coming to the close. Following on, the armed forces attitude survey suggested that only 34% of military personnel agree that pay and benefits are fair for the work done. It remarked: "The decline in satisfaction with basic pay since 2010 may be influenced by ongoing public sector pay restraint, which has seen armed forces pay increase more slowly than in earlier years." Do you have a strategy to try to raise morale in the armed forces and thus to head off the constant worry that we repeatedly hear about hollowing out and lack of retention capability?

Lieutenant General Poffley: That certainly is pretty high on everyone's agenda and comes back to Mr Mercer's comment that people are pretty high on our priorities.

Q80 **Chair:** Perhaps I can just add, before you respond specifically, that looking at the armed forces monthly service personnel statistics, I see that on 1 September this year it was 4.1% below what we wanted. We had a deficit of 5,990 service personnel. Could you perhaps take that into account in your response?

Lieutenant General Poffley: Sure. This goes to the heart of a pretty extensive and progressive people agenda that General Nugee, Chief of Defence People—the permanent secretary referred to him earlier—is progressing. That goes to the heart of what I would describe as clear recruitment ambitions, which means you must get the offer right, the living conditions right and activity right. Inevitably, all three services are suffering a degree of legacy effect from coming off 15 years of campaigning. That is inevitably also playing into some of this, but in addressing the people issue we are talking about a number of initiatives: a flexible engagement system such that you can bring in skilled people, allow people to take lifestyle choices, look at things like ensuring quality agenda for taking maternity breaks and so forth.

There is a strategy aimed at families where spousal employment is quite important. We are running a trial through the RAF and Joint Forces Command to try to upskill some of the spouses so that they can be employed wherever they find themselves. You have the service offer in the round: are the pay and terms and conditions under which we serve appropriate? Lastly, there is reinvigoration of the covenant, which has been well received and, by and large, service personnel recognise is a benefit.

A series of things wrapped up inside a people strategy will get to the heart of the problems you are describing. There is no getting away from the fact that when you look at continuous attitude survey results there is a degradation in perception of service. That is not untypical at this stage, post campaigning of armies, navies and air forces. It tends to be a sign or problem and I hope we are the nadir of that. The recruiting figures and particularly the retention figures suggest that that is indeed the case.

Q81 **Chair:** We touched very briefly on the Brexit aspect of financing and the possible effect on the currency. Has the Department set aside enough money to cover currency fluctuations? If the pound remains at its current level, would it cause any significant funding pressures on the equipment budget? I am particularly thinking about the P-8 Poseidon, which is a purchase from America. A lot of the Joint Strike Fighter is of American origin. Was it possible to have in place any guarantees or insurances against currency fluctuations that could have a major impact on what we have to pay for those expensive products?

Mr Lovegrove: I will hand over to Ms Tulett for a more detailed answer. We do have hedging arrangements in the next three years.

Q82 **Chair:** Does that absolutely cover the problem?

Mr Lovegrove: It does not absolutely cover it for the next three years. We are still likely to be under financial pressure as a result of the currency position—far, far less than if we had been unhedged, obviously. We do not have arrangements beyond three years.

Ms Tulett: There are two things. At the moment, we are going through part of the normal annual reprogramming that we mentioned previously around the next 10-year plan. As part of that, we are looking at rebaselining some of our future forex commitments. That will inevitably mean that if we have to predict a sustained level of the pound against the euro and, more importantly, the dollar based on today's situation, we will have to take programming action, which will inevitably mean that we will have to put more money towards those programmes and remove some items from the programme.

We then want to fully discuss with the Treasury the best way to mitigate that future risk. We do not want to take drastic action if, in fact, what we are facing is not a sustainable slip, but is just about where we happen to be in a cycle.

In the nearer term, we have some exposure on a tapered three-year hedge, as Stephen mentioned. We actively manage that using the Treasury scheme with the Bank of England. We are in quite detailed discussions with Treasury officials about the impact that that might have on our future programme. We will have a better position as we emerge from the current planning cycle in Q4 of the current financial year in advance of the beginning of the next financial year.

Q83 **Chair:** What are the biggest risks to the Department's budget, other than the ones we have touched on?

Ms Tulett: For me, the things that could interject include volatility, which could be a sudden, new and emerging priority. We could suddenly be faced with an operational requirement that we do not yet have programmed in and that comes at us completely out of left field. Another major shock would be cost instability driven through industry. Obviously, coming to manageable mitigations around the foreign exchange exposure is playing on my mind at the moment.

Mr Lovegrove: I would add the Successor. The Successor is so big in comparison with the rest of the defence budget. That is an area on which we need to spend disproportionate time ensuring that the costs and schedules are—

Q84 **Chair:** Even though it is following on straight after the Astute programme so there is not a sort of gap as there was between Vanguard and Astute?

Mr Lovegrove: That is very much to be welcomed, but there is a very different scale of enterprise with many more complex integration issues. That is the one that we really do need to keep an eye on.

Lieutenant General Poffley: I would endorse that last point. You need to remember that Successor is not just about submarines. It is about warheads and a whole raft of other ancillaries. Catching a cold in that programme is not a virus that you would want to see extended into the rest of the defence budget.

Q85 **Chair:** We can all agree with that. I cannot resist sneaking in a final question to you, Stephen, given that you are new in the post. You have ably demonstrated today the benefits of having someone in post who has a wide background in other Departments and, indeed, in business and the City. You are, after all, at the head of a huge commercial, as well as military, operation. But I can't help noticing that your biography points out, quite correctly, that you are the principal civilian adviser on defence and that you co-chair, with the Chief of the Defence Staff, the Defence Strategy Group. This Committee has taken in the past, and probably will take in the future, an interest in the way in which strategy is formulated, particularly in the light of those reforms that rather sidelined the Chiefs of

Staff. How do you feel, as a new civilian head of the Ministry of Defence, catapulted, as it were, into a central seat at the heart of defence strategy planning, about that aspect of your role when obviously you come from a varied and valuable background but not one that is steeped in defence?

Mr Lovegrove: Honoured and excited is the first thing that I think about it. It is a job that I had secretly been interested in for many years. Although most of my career has been, as you say, in a financial and commercial environment, certainly in the latter years at Energy, I have a fairly solid policy background more generally. In terms of defence policy, that’s right: I am not pretending that I have spent anything like as much time as other members of the Department, or indeed anybody else in this room, on defence issues. I have very good relationships with the vice-chief, the Chief of the Defence Staff, colleagues such as Mark and the single service chiefs. I am absolutely committed to reinvigorating the civilian policy profession in the Department. The Chilcot report had a lot of very interesting things to say about that and is proving to be a very useful template for us to be able to organise our own policy-making machine in the Department. And every day I am learning a little bit more. So I am determined to play and, I think, am already playing quite a full part in the policy development in the Department.

Chair: On that positive note, may I thank all three of you very much indeed? As usual, we have covered a wide area and have had a great deal of useful information.