

Public Accounts Committee

Oral evidence: Defence Equipment Plan 2017-2027, HC 880

Wednesday 14 March 2018

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Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Chris Evans; Luke Graham; Stephen Morgan; Anne Marie Morris.

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

Questions 1-98

Witnesses

I: Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Cat Little, Director General of Finance, Ministry of Defence, Lieutenant-General Mark Poffley, Deputy Chair of Defence Staff, Military Capability, Ministry of Defence, and Michael Bradley, Chief Executive Officer, Defence Equipment and Support, Ministry of Defence.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Report by the Comptroller and Auditor General The Equipment Plan 2017 to 2027 (HC717)

Examination of witnesses

Witnesses: Stephen Lovegrove, Cat Little, Lieutenant-General Mark Poffley, and Michael Bradley.

Q1 Chair: Good afternoon and welcome to the Public Accounts Committee on Wednesday 14 March 2018. We are here today to look at the defence equipment plan—the Ministry of Defence’s 10-year plan for 2017 to 2027—after a National Audit Office Report that has looked at the robustness of the assumptions underlying the plan and concluded that, in short, it is not affordable.

I joined this Committee in 2011, when the defence budget looked in a bad state, but things got better. I am very concerned to see that headroom and capacity are right at their limit, with an affordability gap of £4.9 billion that could stretch to £20.8 billion, depending on how you interpret it—we will touch on that point with you, Mr Lovegrove.

Let me introduce our witnesses, and then—as you might expect, Mr Lovegrove—I will have a couple of questions for you about other matters that are not directly related to this Report but are very much related to the defence of the nation. From my left, we have Lieutenant General Mark Poffley OBE, Deputy Chief of the Defence Staff (Capability)—welcome back; Stephen Lovegrove, permanent secretary at the Ministry of Defence; Cat Little, Director General Finance at the Ministry of Defence; and Michael Bradley, acting chief executive of Defence Equipment and Support.

Before we get into the main session, I want to ask Mr Lovegrove about the threat from Russia and the capability of the Ministry of Defence. I have just outlined some of the challenges in the budget. We know, and have known for some time, that there is a threat from Russia—it is rather pertinent this week. Frankly, can the Ministry of Defence provide us with the support that we need as a nation to make sure that we are able to tackle that threat?

Stephen Lovegrove: I feel very confident that the Ministry of Defence and the armed forces can provide a very robust defence against anything that Russia might throw at us. However, I would say that we typically operate, and certainly would always operate in the kind of situation that you outline with that kind of adversary, as part of an alliance—most notably as part of NATO. The idea that the UK needs to, or indeed could, sustain the ability to operate and defend against an adversary of that scale



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all by itself is, in some sense, a misjudgment of how we go about operating in the current context with those kinds of adversaries.

I think you can see very clearly in the terrible events around Salisbury a very clear desire, even in that comparatively limited incident—although I do not at all underplay the gravity of it—a very conscious desire on the part of the Prime Minister and the Government to bring allies along with us. That has not been difficult. I think everybody in the international community has been outraged and shocked by what happened in Salisbury, and that would always be the approach that we would take to any other type of event as well.

Q2 Chair: Obviously, we are all concerned by what has happened in recent days in terms of that attack, but General Sir Gordon Messenger was quoted in *The Times*—Deborah Haines, the defence editor, wrote a story on him on 1 March—revealing that Russia is “conducting reconnaissance of critical national infrastructure and launching aggressive cyber-attacks that must be countered and deterred.” Do you agree with General Sir Gordon Messenger, and what is the Ministry of Defence doing to be prepared for this?

Stephen Lovegrove: I would probably widen General Sir Gordon Messenger’s observations. We are well aware that Russia looks at, and pre-positions, assets against the UK, as it does a number of other western countries. We have world-leading cyber-defence in this country, which is not to say that nothing bad will ever happen. I do not think that anybody could possibly say that, but we do have world-leading cyber-defence.

Most of that is done through the National Cyber Security Centre, which was set up just after the 2015 SDSR. There are defence personnel in that centre. We work very closely with GCHQ. We have been talking to GCHQ and other partners in Government about how we strengthen that defensive activity and, indeed, our potential for offensive activity, because of course deterrence works in that domain just as much as in others. That is a very active part of the work that we are doing under the modernising defence programme. It was a very active part of the work that was done under the national security capability review, and will continue to be fought for some time. I think you can see, in the jargon of defence, only “up arrows” in this area. We will make capability choices that will typically tend to favour cyber-activity.

If I can broaden it out slightly, as well as the type of activity that I have just referred to and that General Messenger referred to, and as well as what happened in Salisbury, we are seeing some very alarming, explicit as well as covert, statements of intent from Russia at the moment. I am sure that the Committee is aware of President Putin’s state of the nation address, where he talked about the ability—hopefully not operational at the moment—to have nuclear-powered, nuclear-tipped cruise missiles and other forms of highly developed modern weaponry. We need to continually look at our capabilities, and make sure that they, nested within an alliance construct, are sufficient to defend the citizens of this country.



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Q3 **Chair:** Which brings me to the key point. With all that threat, and we haven't even got into Korea, have you got enough money in the budget, given what we will discuss today, to develop that capability to the level that it needs to be, to make sure that this country is genuinely safe from the multiple risks that you have just outlined?

Stephen Lovegrove: If I may, I will just take the story back to NSCR, the national security capability review—

Q4 **Chair:** The defence bits have now been spun out of that, so—

Stephen Lovegrove: Yes—I'm a little bit reluctant to think of it as "spun out". There is absolutely no question but that everything we do underneath the modernising defence programme and indeed everything that we do in the Department is done in the service of the broader security of the country, and is done with all our partners around Whitehall and internationally. So, what we have effectively done is extend and expand the defence strand from the NSCR—

Q5 **Chair:** Can we just be clear? We were going to come on to this later; we may come back to it. With the modernising defence programme, is that taking out what you might call the traditional defence elements—ships, people, the physical infrastructure—and are you saying that you have still got a strong foot in the camp of the national security programme work that was being done, and that the defence element of that is still there?

Stephen Lovegrove: There were 12 strands to the NSCR, of which defence was one, and it was the biggest, because defence is the biggest.

Q6 **Chair:** But you must have been involved in some of the other strands?

Stephen Lovegrove: We were involved in some of the other strands, and indeed one of them was full-spectrum activity. One was cyber; one was border security. All these things we're actually involved in and we played into every single one of the strands, but defence in its own right was much—

Q7 **Chair:** Just to be clear—so defence is there. You take out just the issues you were discussing; dealing with cyber-threats and so on. That would not be in the main defence strand?

Stephen Lovegrove: It is. We had specific defence cyber-strands within the defence strand. The NSCR was an extremely timely exercise. It was very timely for the 11 strands for which the conclusions will be announced imminently. It was very timely for us in defence. I mean, there has been a lot of change in the last two years, since the SDSR. There has been a great deal of change in terms of geopolitics and there has been a great deal of change in terms of technology, and the unhappy cross-fertilisation or cross-contamination of the various things that we identified in SDSR15.

The Secretary of State, the Prime Minister and the Chancellor, when looking at the emerging conclusions of the defence strand in NSCR, came to the conclusion—I think understandably—that the world in which we were operating now required us to spend a little more time looking at the



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capabilities that we actually did need for the world as it's developing, and that was not capable of being accommodated within the timetable for the NSCR.

I'm sure we will get into the modernising defence programme later, but there are a number of strands in their own right to that. However, it is very, very much being done with colleagues in Cabinet Office, colleagues in the Foreign Office, colleagues in No.10 and obviously colleagues in the Treasury as well, because the idea that somehow Defence can possibly in the modern world declare UDI is crazy, and we would not ever do that. This is an extension of the defence strand, weaving in all the usual security actors around Whitehall.

Chair: The subject of this hearing is really how you will fund all this, so we will get more into that. Before we do, I want to bring in Stephen Morgan briefly, and then Mr Graham.

Q8 **Stephen Morgan:** I am just keen to understand the latest on the recruitment of your successor.

Michael Bradley: There is an ongoing recruitment exercise. The next stage of that process is panel interviews, which are being held on Monday next week.

Q9 **Chair:** Right. So when will you be relieved of your command, so to speak?

Michael Bradley: Well, I am actually still in the process, so that might not be the case. But—

Chair: Forgive me. Sorry. I didn't mean—

Stephen Lovegrove: It might be easier, Chair, if I was to answer that. *[Laughter.]*

Q10 **Chair:** Forgive me, Mr Bradley. I wouldn't want to be seen to—*[Laughter.]* That was a big boo-boo by me, so apologies. Mr Lovegrove, when will we see someone permanently in that position, whomsoever it may be?

Stephen Lovegrove: It depends, obviously, on who is ultimately successful in the—

Q11 **Chair:** Are these panel interviews the final stage? I suppose that's what we're asking.

Stephen Lovegrove: It is, pretty much. It is obviously a permanent secretary-level appointment, so it will inevitably go to No. 10, and the Prime Minister will sign off on it. I will be—

Chair: But the system will have delivered somebody up by—

Stephen Lovegrove: The system will have identified a candidate that it wants to appoint pretty quickly. I suspect if Mr Bradley is successful, you can imagine that the process might be relatively quick. I do not wish to put words into Mr Bradley's mouth. If somebody else who is currently employed in the private sector, for example, is successful, that is a slightly

different thing and may take a little more time. But we are moving as quickly as we possibly can on this. It is a tremendously important role, as is clear from this hearing. We really want to have a permanent incumbent as quickly as we possibly can.

- Q12 **Luke Graham:** I want to pick up on some press reports about the F-35s. You will have seen from *The Times* report on 13 March that we are being hit for another £12 billion of upgrades. Was that expected?

Stephen Lovegrove: I will pass to General Poffley for the detail, but I can give a bit of general background on the F-35. The position that we have outlined to this Committee and to other Committees remains the case. We are acquiring the aircraft and the airframes at the rate that we expected to. We are acquiring them on an appropriately downward trajectory in terms of cost.

The issues with the F-35, in terms of overall cost, come in the sustainment and upgrading process, and ultimately in the operational process as well. In particular, I think you are referring to one of the upgrades for block 4. There are particular contractual arrangements around the UK's position for that block. We are in discussions with the US at the moment, and I will be going to the States in 10 days' time to speak to Deputy Secretary Shanahan and Under Secretary Lord to start thinking in particular about some of the issues around how we can get a better handle on sustainment costs and how we can keep driving those down. As for block 4, I will hand over to General Poffley.

Lieutenant-General Mark Poffley: First, I am not in a position to verify where the statistics that are cited in that article came from. I cannot confirm whether that is a right figure or a wrong figure, because I do not know its provenance. I can say that the suggestion that the aircraft we got at block 3 are not combat capable is flawed. We are very confident that the aircraft, even at block 3, is ready for operations. Indeed, some of the test data that we are getting from its initial exposure into exercises and so forth is incredibly encouraging—it is a step change from where we are today.

With regard to the costs that are quoted there, as they are described, it is absolutely the case that we will have to spend some money on further development of the capability incrementally through the life of the programme. Block 4 includes some development costs. The costs that are quoted here from an American programme point of view—the JPO's programme—are whole-programme costs. We are certainly not going to be bearing all of those.

A number of factors will influence the size and shape of our contribution to that development agenda. First, our contribution as a tier 1 partner steps down from around 25% at present to about 4.5%, alongside every other partner nation, at the point at which we start to work on block 4 aircraft.

A number of supplementary factors will affect the precise outturn of our contribution to that development agenda, such as partner nation take-off



of aircraft across the entire programme, which is 3,000 aircraft as presently configured; the scope of capability development that we might want to apply, which is what weapons systems you are going to do—that is very threat dependent; there will be some choices as you go through the programme on that—the experience that we currently have, in terms of introducing the aircraft to operations and general use; and the operational context and the trade-offs you might have to make elsewhere, not just in our programme, but in every partner nation's programme.

There is an awful lot of uncertainty there. What I can say is that we have provisioned for development of the capability from block 4 onwards inside our programme. It is not exceeding where we expected it to be.

- Q13 **Luke Graham:** Can I just come back on that? You questioned the figure there. In terms of the additional cost across project development, what is the figure in your view, even if it is just what the Americans let you know of total project costs?

Lieutenant-General Mark Poffley: We have assigned just over £7 billion for the introduction of the platforms from a production point of view, a development point of view and a sustainment point of view, and that is for the first 48 aircraft. We believe that the costs described in the block 4 enhancements are inside that envelope.¹

- Q14 **Luke Graham:** Forgive me, sir, but that was not quite the question I asked. In terms of what you understand as the additional project development costs there have been to date, what do you think that number is?

Lieutenant-General Mark Poffley: We don't know for block 4 yet, because that is part of the conversation we are having with the JPO, and it is driven by the factors I have already outlined.

- Q15 **Luke Graham:** Got it. I have a follow-up question on that. There are about 250 F-35s in the field at the moment. As we know from the Americans, they have a higher than expected cost. Do you know what the initial running costs of those 250 in the field are?

Lieutenant-General Mark Poffley: We have sight of the running costs for each type of aircraft, although I do not have that with me today. In terms of testbed aircraft and initial operating, we are sharing that information across the programme office.

- Q16 **Luke Graham:** Understood. Also, there is ongoing work with the JPO trying to look at the cost per tail and the sustainability points, which you rightly raised. How much do you expect those costs to come down, especially from a per tail price? In terms of sustainability, what

¹ Post hearing note from the witness: As stated in the response to Q12, we have provisioned for development of the capability from block 4 onwards inside our programme. Once these costs are refined with the JPO, in accordance with normal business practices we will seek approval to spend this provision. This will incrementally increase the current approval level of just over £7Bn for production, sustainment and follow-on development mentioned above



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percentage can we expect, or what percentage are they targeting?

Lieutenant-General Mark Poffley: We have already seen costs reduce from the lot 3 buy, which was about \$160 million a copy. It was down to about \$123 million for the latest purchase that we have made. When it comes to subsequent lots, we are expecting that cost to fall still further per tail, but we are in the middle of a negotiation beyond the 18 aircraft we have already contracted for, so that is a subject for us and the programme office to debate. I would anticipate it coming down to about \$100 million a copy.

Stephen Lovegrove: I am not as much of an expert in the capability as General Poffley is, but we are profoundly conscious of the fact that historically Defence Departments across any type of capability have often had a bit less focus on sustainment and maintenance costs and more focus on acquisition. We have seen industry partners often do very well out of that dynamic. The F-35 is very unlikely to automatically buck that trend. In terms of our focus at the moment, it is much more with our American partners thinking about ensuring that sustainment costs do not become unacceptable to us. They are working very hard on that. To a certain extent, we will inevitably be led by them, because they are leading the JPO and the main interactions with Lockheed Martin. It is an area of intense focus for us. It is even more intense for them, and there is complete transparency between the two. That is why, as I say, I am going out in 10 days' time to talk to them about it.

Q17 **Luke Graham:** Just on that point, it does not seem like you have a target price in mind. We will come to the overall equipment budget in a few moments, and we are aware of a lot of pressures there, but have you got in mind the percentage target or tail price—

Stephen Lovegrove: For the sustainment?

Q18 **Luke Graham:** Yes, for the sustainment and the tail price purchase price.

Lieutenant-General Mark Poffley: For the next lot, I can give you a feel of where we think the target price is for us, but that of course is the subject of a contractual negotiation that we have yet to conclude. From a tail point of view, we know where we would like to be. As I say, it is around \$100 million a copy. The experience from the running of the first set of aircraft and the way we want to operate the aircraft as we grow our capacity will determine where we want to be on sustainment. We have a figure that is broadly commensurate with the United States, so that compares pretty favourably at the moment. That is already incorporated into our planning data. To give a figure, per tail, would be likely to draw false conclusions. Because it will quite clearly be driven by the activities that we want to run with. Our programme is scheduled for a particular format in its current form, but is very vulnerable to changes, depending on the operational scenario.

Q19 **Luke Graham:** I completely appreciate that and obviously we have seen some of the FX changes come through. Just to note, the Public Accounts Committee had meetings with some of the members of the JPO and I



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would be happy to provide details on that. But just to play back some of the figures they gave us: of the 250 F-35s in the field at the moment, they think overspend has been around \$1 billion.

In terms of additional project development costs, they are in the region of around \$19 billion on the project to date. They are also looking at full costs for the programme or around \$1 trillion. They are targeting, in terms of F-35A—admittedly the F-35B that we are looking at will be slightly more expensive—per tail costs of around \$80 million, and they are looking for about 30% change in sustainability.

The reason I play these figures back to you, which I am sure you are probably aware of, is to voice some of my frustration as a British parliamentarian that I got more from the Americans when I went over there than I did from the home team when we discussed aircraft carrier strike capability, in terms of getting into the detail of some of these numbers.

If these numbers are a complete surprise to you today, fair enough. Then it's a great learning experience and perhaps we should just speak more. But if they were not, I am concerned that the Committee was not given more sight of these before we went over there so that we were better equipped to have the discussion with the Americans to begin with. My final point is on reliability.

Chair: Could we allow Mr Lovegrove answer the point about information?

Stephen Lovegrove: The general direction of those kinds of numbers is not a surprise to us. You mentioned \$1 trillion. I would be surprised if our American colleagues did not caveat that number pretty heavily. In terms of round numbers that is about as round as you are ever likely to get. The uncertainties in that kind of area are enormous.

As for 30% off sustainment costs, that I know is an ambition. It is one that we absolutely share. If it could be 40% then we would go for that as well. Certainly, if you feel that we are in a sense not giving you what you require, I am happy to take that away and see whether there are different types of numbers that we could give you.

The only thing I would say is that policy in the UK in these areas in Defence is that we are uncomfortable about giving away numbers of precision that compromise a contractual relationship, which we are not necessarily in control of.

That is the situation here because the JPO does the work. We are uncomfortable with numbers such as \$1 trillion because it is so broad. I don't know what the error band around \$1 trillion is but is going to be very, very, very big. We typically shy away from that. We don't want to mislead parliamentarians, the public or the media. I am very happy to have a session with you, Mr Graham, and work out whether there is something we can do better on this.

Q20 **Chair:** Certainly in the past we have had been briefed at the MOD in private. We don't usually take private briefings but we understand that



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for some of these things it might be helpful, so we may well take you up on that.

Stephen Lovegrove: We are very happy to do that.

Chair: Mr Graham had one more point on the F-35s, I think.

Lieutenant-General Mark Poffley: If I may briefly come back to you. If the figure of 80 is being contrasted with our 100, it depends on which lot they are talking about as their target price. If it is lot 17, 18, 19, we are only at 10 now and we are looking at lot 11. I would expect that price from 11 similarly to depreciate at some stage into the future. It is about a reference point in the conversation. I hope that brings a little bit of light. I am not necessarily questioning that figure at all, quite the contrary. I am delighted to hear that their ultimate target is lower than ours.

Luke Graham: Absolutely. The Chair can correct me on this point, but as a new parliamentarian I hope the point of this Committee is that this is where we can draw out some of this detail that sometimes does not get covered in the main Chamber. There is a sense of disappointment at sitting in the Pentagon, listening to American colleagues and allies, and getting more detail than we would from the home team.

That offer would be helpful going forward, especially in the context of what we are about to go into. I thank you for your offer, and I will take it up. As we go into this inquiry—we are going to talk quite a bit about transparency and about some of the gaps—I ask all the witnesses to take that into account, because we will certainly be looking for more transparency rather than less.

With the F-35, perhaps it would be more helpful if we could provide some information from our conversation with the Americans.

Chair: I am sure we can. I think we are going to take this issue offline now, but you know we are pursuing this. This is a huge commitment, but we are not completely in control in the UK. The Ministry of Defence has an interesting role—to watch the taxpayers' money, but not with complete control of it. We continue to watch this.

Before we move on to the main point in hand, which is the National Audit Office Report, I remind witnesses and Members that we have the Report, and the figures are agreed, so we do not need to replay it: witnesses, you do not need to tell us what is in it—we are on top of that. We just want fairly quick, short, sharp questions and answers to get to the nub of the issue. I will ask Luke Graham to set an example and lead off.

- Q21 **Luke Graham:** Thank you very much, Chair. Hopefully I will not go against your advice, but the key numbers in the Report are the total spend of £179.7 billion, and the affordability gap that has been identified of between £4.9 billion and £20.8 billion. So the easy question first: who is responsible for this multibillion-pound black hole in the defence equipment plan?

Stephen Lovegrove: I am responsible for the Defence budget. I would certainly contest the characterisation of it as a black hole. I would not at all deny, and never have denied, that there is significant financial risk in it. I completely agree with you, Chair, that the NAO Report is extremely helpful and useful. We do not contest the basis of the categories that they identify.

Chair: It is lovely to give the NAO a boost, but if we can cut out the compliments, we can get through this a bit quicker. Sir Amyas will drink that up, but don't think they'll give you an easier ride next time. We will take the compliments as given.

Stephen Lovegrove: It is all part of my tactics. What I would say is that these categories of financial risk are ones that we have always carried. We have always, historically, been able to manage those categories of financial risk and mitigate them. These are long-running programmes, but I accept that it is undeniable that right now we are carrying more financial risk than we did, for instance, last year or the year before. It is more difficult for us to manage and mitigate those categories of risk, and it is also true that some of the particular pressures are in the nearer term rather than the further term, which means that it is more difficult for us and the commands to do that. Indeed, the Secretary of State has been very clear, in the way in which he set up the modernising defence programme, that he wanted it to address the issue of sustainable affordability, which is really code for this conversation.

I genuinely would not accept the £20 billion top-end number as remotely realistic in the real world. It implies that everything will happen to the maximum possible detrimental effect to defence. It also implies that we have no levers to control it over the next 10 years, none of which is really true. But is there an affordability challenge? For sure.

Q22 **Luke Graham:** But you accept the £4.9 billion minimum gap?

Chair: It is an agreed Report.

Stephen Lovegrove: It is likely that the affordability challenge sitting here in the next 10 years is in the billions—that is for sure. It is also true that we have the ability to manage very large sums of money—also in the billions—out of the programme over the next 10 years. Do I accept that the problem today is more acute than it was this time last year or this time the year before? Yes, I do.

Chair: Well, we have got that straight—in a long-winded way, but still.

Q23 **Luke Graham:** Okay, so it is a half-maybe on the £4.9 billion, but definitely not £20 billion. Where do you think the real figure lies?

Stephen Lovegrove: I think that is an impossible question to answer. It relies on judgments that nobody can make about capability choices that will be made in the MDP, programming choices that will be made in the MDP, the nature of the funding agreement with the Treasury, the nature of foreign exchange movements, how successful Mr Bradley and his



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colleagues are in managing cost out of the programme, and, likewise, the capability choices that we started off the session talking about. Do we need to put more behind cyber? What are the consequences for that? It is a very difficult question to answer.

Chair: That is based on, ultimately, political decisions by the Secretary of State and others about the capability, so we know there are all those variables. We will take that as read.

- Q24 **Luke Graham:** I will put the same question to Ms Little. Presumably it would be yourself or your Department that would be responsible for producing some of these forecasts, or at least the scenario-planning around the forecasts. Mr Lovegrove talked about some being historic costs, but obviously things like Type 31e frigates are not a historic cost or programme. I ask you the same question, Ms Little: where do you think, with your hat on, the real cost—the real sugar—is?

Cat Little: Appreciating that you are keen to get into some of the detail of the numbers, if I were to use an analogy of your personal finances, I have a current account and a savings account. In terms of my current account—if I take out the £6 billion of contingency—I am pretty sure that I will spend the £173 billion. I have the £6 billion in my savings account ready to crystallise against risks as and when they happen. The bit that I apologise is not in the NAO Report, and that I would like to add in, is that we also have £1.8 billion of forex contingency.

I have this rather healthy savings account with £7.8 billion in it. If I was going to walk down each of the individual risk categories that had been identified, there is no doubt that we would certainly consume some of the £3.2 billion—I estimate probably around a third to half. We would probably use some of the £9.6 billion, but I would say that, this year, we had £1.6 billion of that amount in the 2017-18 financial period, and we have managed all of that, so we are not talking large percentages. I do not think that we would actually, based on today's forex forecast experience, get anywhere near the £4.6 billion in the NAO Report.

- Q25 **Luke Graham:** Monday's rate was \$1.25 to \$1.18. That would come out at about £2.3 billion versus the £4.6 billion. If you were at £1.8 billion, then it is £0.5 billion here, and £0.5 billion there.

Cat Little: On the £8.1 billion, we are halfway through the efficiency target of £16 billion. I have half to go. We have delivered half of it, and I only have £0.5 billion of savings targeted at the back-end of the 10-year programme that I am yet to find. You can do the maths. Do I think I have enough in my savings account to be able to mitigate and buy out that risk sensibly? Yes.

- Q26 **Luke Graham:** Got it. Just going through your additions there, you were saying that it would be about half of the £3.2 billion; we would probably square off about £0.5 billion on the FX rate. You have some savings that you think will take in half of the £9.6 billion. Actually, we are coming back to that minimum affordability gap in that space between £4 billion and £8 billion, which is probably about right.



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Cat Little: I do not fundamentally disagree with the ranges and the plausible scenarios that the NAO has highlighted.

Q27 **Chair:** I just wanted to bring in the NAO on the forex point, as Ms Little has sneaked in a figure, which we do not usually allow.

Keith Lloyd: A couple of observations. I would make an observation on the £9.6 billion. That is £9.6 billion of forecast costs that the Department has determined. You might want to not incur those forecast costs, but at the time of putting the plan together, those were forecast costs that the Department had built up, so the assumption is that those are things that the commands need. If you are not going to spend the £9.6 billion, then that talks to changing the programme, which is at your discretion to do, but I would push that into political decisions that you might want to effect. The £9.6 billion is a departmental figure of forecast costs. That is what the plan is saying. There is no risk about that. That is a definite figure. You have discretion as to how you incur that expenditure or not.

Q28 **Chair:** This demonstrates why we have agreed Reports, because we don't really want to get into discussion here about figures. So you agree with the figures of the NAO.

Cat Little: I agree.

Q29 **Chair:** And with the range?

Cat Little: I do. I don't disagree with anything that my colleague from the NAO has said. What I would say is that we do have choice, which is not necessarily about the overall programme, in how you manage down the £9.6 billion. I personally think it is right that we don't fully fund everything upfront on a 10-year programme and that we, particularly from head office, ensure that there is tight and robust financial management at TLB and at programme level. So I almost want to set a bit of financial stretch in how much of the programme we allocate to our TLBs.

Chair: TLBs?

Stephen Lovegrove: The frontline command—the other operating units.

Cat Little: The business units of the Department. If we at group level are to be able to contain costs overall, I need some sort of financial stretch. In effect, the £9.6 billion is an imposed financial stretch target.

Q30 **Chair:** I will bring Sir Amyas in. He can't resist.

Sir Amyas Morse: We have these discussions every time there is a Report like this, and it is all good fun, but the real question is whether you are in control of what is happening or not. If you are not, which you are not going to admit at this hearing—I know that—you need to get in control of it pretty quickly. I do not think all the evidence we have found has actually been totally reassuring—I have to be frank. It is not that I don't think you are putting a huge effort in, but to say, "Well, £9.6 billion came shuffling out the cupboard and it is a bracing exercise in tension between the commands and ourselves"—no, that is not a good story, frankly.



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Whatever is said here, we need to be sure going forward from here that you put yourselves in a position where you are really in control of what is happening. That is far more important than anything else that happens at this hearing.

Q31 **Chair:** I will give you a quick comeback on that, Mr Lovegrove.

Stephen Lovegrove: I think I have been very honest and very straightforward that the financial pressures on the Department are greater today than they were 12 months ago or 12 months before that. I don't think I have been anything other than straightforward on that. I have also been very straightforward that the modernising defence programme is in some part a response to that picture, and there may be some difficult decisions in that process. When the Secretary of State talks about putting defence on a sustainably affordable basis, as I said before, that is effectively a response to the challenge that you perfectly rightly pose.

Q32 **Luke Graham:** Ms Little, you were talking about having a bit of financial stretch. Is that your way of bringing the commands to heel a little bit, sanctioning them, and bringing in a bit more discipline?

Cat Little: It is a real balance because, at the end of the day, what I am trying to achieve is enough financial stretch in the system to drive value for money and to hold industry to account, but the budgets have got to be realistic. I need all of the business unit leaders to be able to say, "Yes, I can achieve what you have asked me to do within my budget." I joined the Department five months ago. What I have experienced—certainly in this financial year—is that that has been incredibly difficult without there being changes to the programme and to what we are having to defer and move into future years. It is that constant trade-off between living within your means within a very short-term financial period versus long-term sustainability. I am deeply respectful of the financial rules that we have to play by within Government, but for a very, very complex, infrastructure-heavy Department, we are constantly making trade-offs between short-term decision making and long-term value for money.

Chair: I think we have seen some of the outfall of that recently.

Q33 **Luke Graham:** I completely appreciate that, and some of those things will come down to political influence—I understand that. An easy one: why were the costs of the Type 31e not included in the plan?

Cat Little: Partly it is to do with timing. General Poffley might want to add to this.

Q34 **Luke Graham:** It was delayed though, wasn't it? We were two months over on the budget. Is that right?

Cat Little: We hadn't set a budget at the time that the April 2017 equipment plan was set. They weren't included because of the timing at which decisions were made about the overall shape and costs of the programme. All I can tell you and give you assurance of is that they are absolutely plugged into the current equipment plan and the financial plan we are now working to.



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Q35 **Luke Graham:** Do you want to use this opportunity to flag any other costs that were not included?

Cat Little: Not of that nature or scale, no.

Stephen Lovegrove: I have to say, going back to the questions the Chair posed at the very beginning of the session, that the world around us is changing fast enough for us potentially to be able to envisage some quite big changes to the equipment plan. We may need to take a different view about our chemical, biological, radiological and nuclear capabilities, and I mentioned that we may need to take a different approach to our cyber capabilities. This is going to be a moving picture, and I suspect we will be having a different type of conversation next year.

Chair: A well calibrated space for you to move in over the next year, Mr Lovegrove.

Q36 **Luke Graham:** Presumably the next plan that comes forward won't have the gaps we have seen this time. Will it be a full and honest plan, even if it is far more ambitious?

Stephen Lovegrove: Of course, I absolutely commit to being as forthright, honest and straightforward as we must be to the nation and Parliament when we are putting these plans forward.

Q37 **Luke Graham:** I want to move on to FX briefly. We touched on it there. I don't want to delve down the rabbit hole too much, but some of the biggest procurements are in foreign currencies. We have got approximately 36 billion in dollars and about 3.6 billion in euros. We have seen the NAO Report, and there is a risk with FX rates. I mentioned that the spot rate today would be £4.6 billion. When will you start using more realistic FX rates, knowing we have got a more volatile situation post-Brexit?

Cat Little: There are two ways in which we mitigate forex risks. One way is the hedge and the forward purchase of contracts, which is well documented in the NAO Report. The bit that remains, to which I alluded earlier, is that we also create a contingency provision, which is held by head office.

Q38 **Luke Graham:** That's the £1.8 billion, is it?

Cat Little: Yes, the £1.8 billion. The rate that we use to forecast how big that contingency should be is not a spot rate; it is a defence economics analysis of what we think the forecast is year by year for the next five years. We use external professional market analysis to derive what we think that spot rate is. We update it every single month so that we can scenario-plan and manage forex risk within the Department. If I were to compare the NAO Report to our provision, it is broadly similar. For this year, it is at \$1.25 for the dollar and up €1.15 for the euro. That is how we buy out some of the risk in the equipment plan.

Sir Amyas Morse: What a pleasant surprise to find that we have got a spare £1.8 billion in reserve, which you didn't mention to us in all the



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clearance processes for this Report. Where was it? Was it described as something else? I am not being sarcastic; I am only asking.

Cat Little: No, and I appreciate your frustration, Amyas.

Sir Amyas Morse: I am not frustrated; I am just seeking information.

Cat Little: We have several contingencies at head office to manage specific types of risk.

Sir Amyas Morse: So what was it described as before? The contingency that you have at head office, which you are now describing with regard to exchange control, must have been described as something else, unless you are telling me that it is a journal entry that has happened more recently. Where was it in your records?

Cat Little: It was there at the time of your work in April 2017. We have always held a forex contingency as part of our central contingency arrangements.

Keith Lloyd: The £1.8 billion is not part of the equipment plan reconciliation.

Cat Little: No.

Keith Lloyd: It never was through the iteration of the Report, and it never was through our discussions with your staff at working level. It would have been useful contextual information to have put in this Report, but it was not shared with us.

Cat Little: I agree with that.

Keith Lloyd: That is ultimately what the situation is. Clearly, the £4.6 billion is a spot rate at the time the equipment plan starts. Clearly, that can go all over the place. Recalculating the £4.6 billion at Monday's rate, for example, sort of halves that. It can move all over the place. This is the point we were trying to raise. If you look at how the equipment plan costings are put together, apart from the first year of the plan, years two to 10 of the plan are calculated using ostensibly pre-Brexit rates, which you are never going to—well, in future, who knows? At the moment it is not a realistic basis.

I don't argue that there is no correct rate to use or that this could move all over the place and this figure can move. What I am arguing is this: if you are putting the plan together, to plug into your field \$1.55 is not the right thing to do, in terms of the transparency of those costs denominated in dollars.

Q39 **Chair:** We have raised concerns about forex before. Where have you got to with the Treasury on this? Because those are the discussions we have urged you to have and urged the Treasury to have with you. Any progress?



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Cat Little: For the very immediate financial year we are about to come into, we are still in discussions with Treasury about how we manage financial risk and the setting of our budget.

Q40 **Chair:** About forex particularly?

Cat Little: For forex? Well, in this year we quite successfully mitigated most of our foreign exchange risk. The broader foreign exchange risk exposure in the 10-year plan is currently part of the modernising defence programme discussions.

Stephen Lovegrove: However, it would be fair to say that so far the Treasury has not been tremendously sympathetic to the idea that we cannot manage our exchange risk ourselves.

Q41 **Chair:** Because you are a big Department, they think that you are big enough to go out there.

Stephen Lovegrove: We have got a big budget.

Q42 **Chair:** Basically, it is no movement from the Treasury.

Stephen Lovegrove: We have not as yet been successful in getting any central relief on that.

Chair: Thank you for the candour.

Sir Amyas Morse: A tiny thing. I am sorry, but just to be clear, this £1.8 billion provision you have got, the reason it was not included in the equipment plan is because it does not pertain to the equipment plan, does it? It is part of your general provisions and pertains to all of your worldwide activities, not just the equipment plan. Is that right?

Cat Little: There is a £2.5 billion forex contingency, of which £1.8 billion is specifically calculated to mitigate forex risk in the equipment plan.

Sir Amyas Morse: Thank you very much.

Q43 **Luke Graham:** We'll move on from FX because it sounds like it is going to be an ongoing conversation between us, you and the NAO. The analysis by the Cost Assurance and Analysis Service has shown that some of the forecast cost of projects increases by about 10% between the design phase and the actual equipment entering service. Ms Little, when will you know if the £12 billion that you have set aside for some of those immature projects will be sufficient?

Cat Little: Every year the independent Cost Assurance and Analysis Service looks at what a realistic out-turn for quite a large proportion of our programmes looks like. That includes the £12 billion of less mature programmes that are highlighted in the NAO Report. At the point of what we call a main gate decision, which is when we formally authorise expenditure to commit to commercial arrangements and into suppliers, we also do an update on the cost analysis. We get further assurance from CAAS and we look at the probability of how mature those cost ranges are.



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Michael Bradley: If you look at the variances that CAAS raises, it is 1.8% on the cost of the total EP. That should give us some comfort that our costings are not a million miles away from where they need to be. And 1.8% across a 10-year period, with some of the complexity in some of our programmes, is not huge. As Cat said, we do have a contingency there to support any variability in our costings. I joined the Department in 2012. In 2011, the difference between the CAAS forecast—the independent cost estimates—and the project team's forecast was more like £13 billion, so there has been a substantial reduction in that variance, and a great deal of convergence as our costings have improved.

Chair: That was the time I remember, 2011, when it was going very much the wrong way. It feels like groundhog day a bit.

- Q44 **Luke Graham:** I appreciate that you are looking at this across the whole piece and the percentage is fine, but I think the concern is with the individual project—it is still £3.2 billion. We are looking at taxpayers' money across the piece—I am trying to get a few million for a city deal so, trust me, £3.2 billion is a lot; please pass some over. When is it that we can have more robust and honest costings for some of these projects? We know you have these swings, especially with some of the more high-risk and complex projects, such as the F-35s. We are getting one and a half aircraft carriers for double the price for which we should have had two. I remember watching those hearings years ago—I was that exciting—so when are we going to get robust costings through?

Michael Bradley: I would argue that we have made a substantial improvement in the quality of our costings over the last five or six years. We are now—

- Q45 **Luke Graham:** Forgive me. You say you have made great costings, but the problem is that we are looking at something that is between £4.9 billion affordability gap and £20 billion affordability gap. Again, some of us are fresher to this than other colleagues who have been on the Committee for longer, but it does not feel like that much progress. What concrete steps will be taken from now onwards to make sure that you can close this gap?

Michael Bradley: If I may, the variance we are talking about is not just costing, is it? That variance is a lot more than just pure costing. We have been doing an awful lot within DE&S through our transformation programme to improve the quality of our costing, so we have been rolling out standard tools and standard processes, and we have been training our staff to use these processes and new tools. It is improving the quality of our costings no end, and we are now in a position where we are much better at doing in-year forecasting, for example.

- Q46 **Chair:** Which programmes do you worry about most, in terms of costings? Which are your top three? I will ask Mr Bradley and Ms Little.

Michael Bradley: The ones I would worry about across Defence are in the nuclear area—so the nuclear programme. Although, at the current time we in DE&S are no longer responsible for the nuclear programme—it is now



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looked after by the Submarine Delivery Agency. To me, the top three projects within that area would be my biggest worry for defence. They are very complex, difficult programmes to cost—

Chair: But as you say, that is not your area of responsibility. Ms Little, what about you?

Cat Little: I agree with Mr Bradley. In the nuclear enterprise, whether that is Dreadnought or Astute, there are some very complicated immature assumptions that can easily be materially impacted by changes as the programme goes on. Because of the nature of the long-term design and implementation of those programmes, it is very easy for us to experience big cost changes throughout the life of those long-term programmes.

Q47 **Luke Graham:** So given that cost there—the Dreadnought and Astute projects have increased by £941 million since the 2016 plan—should we be expecting further increases on that £941 million?

Cat Little: We have just been going through a really robust lessons-learned process for Dreadnought and Astute in particular, because we are currently going through a final stage of business case approvals for the successor. What we have identified is that we have had some issues with project control; we have had some issues with the way in which we have used the commercial contracts, where we have had cost-plus rather than target cost incentive fees; and we need to do more with our suppliers, in partnership, to ensure that we are transparent about the pressures across the whole of the supply chain and how we are working together to mitigate some of the inherent risks we have. We are currently going through an implementation plan to make sure that all of the steps that we have identified as needing to be strengthened are done, and that we have the capacity and resources to implement better controls across those areas quickly.

Q48 **Luke Graham:** You mentioned some of the commercial contract improvements, with standard tools and processes being rolled out. Would all the commands stand by some of these project costings and feel they are realistic, especially given some of the constraints they are under?

Michael Bradley: Yes, I think they would agree that our costings are realistic. We work very closely with the commands, and we follow a quarterly review process with them, where we sit down and take them through all the assumptions in our costings and our programmes. We look at the schedules together and they have full transparency of all the assumptions in our key programmes now, so we work much more closely in the delegated model. We have put in place the process that I have talked about: a quarterly review of costings, to review where we are, and to get the project managers to explain the risks and opportunities in programmes that we are running for the clients.

Lieutenant-General Mark Poffley: The way the delegated model is set up incentivises a degree of scrutiny on the part of the commands of DE&S and those supplier agencies. It is in their interests to properly challenge some of the judgments and make sure that they are properly covered off.



That transformation progress is not fully mature yet; we are two or three years into the Levene reforms, and therefore the intelligent customer—as we call it—down at the command level is improving their expertise, and therefore making a more rigorous challenge. That is reflected in the convergence we are seeing between the costings and the forecast.

- Q49 Luke Graham:** It is good to hear that the command side is supportive. Going back to central office, Ms Little, the NAO has looked at the project costing variants and the median or the 50th percentile that you have previously used. Its Report on CAAS has best highlighted the point that in 38% of instances the 50th percentile is not an accurate measure. Some of the projects were coming in at about the 83rd percentile. Is it not time to stop using the 50th percentile and shift that up to perhaps the 60th, which is a bit more realistic?

Cat Little: Last year the Department conducted a review of how appropriate the P50 policy was. It concluded that it still remained appropriate, but there are certain exceptions to the rule. The reason it concluded that it was still appropriate is primarily because it is a fairly reflective way of looking at what the most likely cost is because, of course, in a normal distribution of cost the 50th is your most likely. That is commensurate with the Department's risk appetite. It also helps the head office to hold programme teams to account, because any programme that goes over the P50 cost level has to come back to explain themselves. That enforces quite a lot of continuous dialogue and transparency about how costs are moving throughout the life of a programme.

The other reason the policy was maintained is that it really does help in negotiations with suppliers to bring costs as close as possible to a central estimate. If you start a negotiation assuming that it will be up at P60 or P70, that changes the frame of commercial negotiations. Having said all that, there are certain conditions where it is absolutely appropriate to take a P60, P70 level; in particular, in some of our mega programmes and when we are looking at science and technology, we have agreed to take a higher percentile costing approach. Whenever the investment approval committee, which I chair, is reviewing cost, we look at a full range and we assess what is the cost level that is most likely to drive performance, what is the level that will achieve the best commercial leverage with suppliers and what is the most realistic.

Michael Bradley: The other thing to bear in mind is that, again, when we look at the CAAS independent cost estimates, whereas in our projects teams we normally cost at 50th percentiles, CAAS is not constrained in any way on that. It can choose whichever confidence level of costings it wants to use. To come back to my percentage, it is 1.8%; despite that fact that we use 50% confidence level numbers, CAAS, which does not have to be constrained by the 50% confidence level, is only saying, "It is 1.8% too low."

The other thing I would say is that, from our perspective within DE&S, we are working very hard to make sure that the input to the cost models is accurate. If we can get the range of uncertainty correct in the model itself,



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to make sure that we put the variability that we see within a schedule or within a cost, it is much more likely that we will get the right answer at the output of a model.

- Q50 **Chair:** Can you tell us a couple of precise actions that you have taken to get those costs more accurate at that early and important stage?

Michael Bradley: Particularly on the risk management side, we have done a lot of work to take best practice from industry, to manage our risks on our projects.

- Q51 **Chair:** Can you give us an example of one where you have done that?

Michael Bradley: I come back to the F-35 and the sustainability question there. In our risk register, there will be a series of entries to quantify the potential outcomes that you might see on the reliability of components, for example, which will obviously feed into the sustainability figures that come together. Risk analysis is absolutely crucial in our organisation, to make sure that the full range of potential risks are on the table, that they are quantified and that there are realistic probabilities assigned to individual risks. That is one of the key things we are trying to drive in DE&S: an improvement in the way we manage and mitigate risk. We have a new standard toolset that we use across the business to record all the risks, so they are all in the same place.

- Q52 **Luke Graham:** When were those tools rolled out?

Michael Bradley: They have been rolled out in the last 12 months. We are rolling out a product called Oracle Primavera P6, which is an industry-leading scheduling and project management tool. That will manage all our major programmes and drive a lot more consistency in performance, because we are using a standard toolset.

- Q53 **Luke Graham:** Would it be fair to say that a lot of these tools are in response to some of the difficulties you had in budget setting last year?

Michael Bradley: Well, it is the problems that have been in the defence acquisition system for a long time. We have been responding to a number of the weaknesses in our organisation.

- Q54 **Luke Graham:** That is fine. I just have one very quick follow-up question. Ms Little, you mentioned the exception to the P50 rule. Is your analysis sophisticated enough to say of the projects that we are looking to undertake—I do not know whether a Type 31e frigate is a mega-project or not—"Actually, this doesn't have a normal distribution of costs. The costs are shifted in a different way: it should be P60 or P70"? Do you have the tools and the expertise in the Department at the moment to make sure that we get it right in the future?

Cat Little: We are currently updating our guidance, because I do not think we have been explicit about where we think a different approach to percentile costing should be adopted. There is inconsistency at the moment in how that data is being collected and how we are applying the P50 policy. In fact, we were going through drafts of it this morning to talk



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about how we get it out fairly quickly for the new financial year. We will be issuing that further guidance and we will be explaining exactly which of our programmes we think it could apply to.

- Q55 Luke Graham:** Going back to the CAAS calculation and the NAO Report, there has been a lot of criticism—I mentioned it at the very start—about the F-35. There is a lack of information about the affordability challenges and about how you are identifying some of these savings. The NAO Report specifically points to some of the ICT costs. There is no real detail. Can you tell us why no real detail has been provided and why the NAO could not uncover some of that detail?

Cat Little: There are two particular areas where we need to quite significantly improve our monitoring and analysis. Let me start with the £9.6 billion. The NAO Report is absolutely right to say that we do not assess which projects are in that £9.6 billion and what TLBs are actually doing to bring down those costs. We are implementing a different approach to capturing those costs within the current planning round. I would like to think that in a year's time I will be able to talk you through a lower number and exactly what is within it, but at the moment I cannot do that because of the way we capture information.

The other area is efficiencies and how we capture savings. We have recently been joined by a new chief operating officer. One of his primary objectives is to absolutely grip and enforce programme discipline in benefits realisation across the Department. That is already having a big impact. He is looking at things like the taxonomy: "Is it really an efficiency? Is it a cut? Is it a saving?" He is also making sure that we have consistent guidance across the Department and, crucially, that we understand the cashability and deliverability of the savings that are being fed up through the system.

Stephen Lovegrove: You asked earlier, Chair, about the areas where we are most concerned to get things right. Mr Bradley and Ms Little have absolutely identified the biggest area of that: the nuclear enterprise. That is fully £44 billion of the £179 billion.

Chair: Can you just repeat that figure?

Stephen Lovegrove: It is £44 billion of the £179 billion. The next biggest category is in information technology, which is £23 billion. After that it is ships at £20 billion and land at £20 billion. I have to say that Mr Graham is right to pick up that we need to do better on our information monitoring and grip. Ms Little has mentioned the appointment of a COO. We have just appointed, also, a CIO from BP, who is aware of this—and this is a very big area for us, where we cannot do a good job for the taxpayer unless we up our game. Historically, we have not done as good a job for the taxpayer as we should have done.

- Q56 Luke Graham:** I appreciate your being candid, Mr Lovegrove. Can we get a date when you can commit to providing Parliament with the full, unvarnished report, and then we can have that detailed breakdown?



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Maybe it is for the next plan, that is fine, but just so we can be explicit on that point. That would be great.

- Q57 **Chair:** A bit like we have the whole of Government accounts—well, not the whole of the Defence accounts, perhaps. We have the accounts, but you know exactly what Mr Graham has asked for.

Cat Little: It is really important to me that we have timely, transparent reporting to Parliament. I think there is more that we need to put in our annual report and accounts, to explain our future spending commitments, particularly for the EP. There is obviously a big gap between the start of the financial year and when you receive our equipment plan. I think we need to accelerate that timetable so it is more commensurate with the financial period we are actually talking about.

I fully expect us to bring forward the equipment plan report, to have more in the annual report and accounts, and I think also, as part of the MDP, we need to set out, quite transparently, the impact. We are talking about certainly more in the annual report and accounts at the end of June or early July—certainly before summer recess. There will be another period in the autumn, commensurate with the MDP and how it plays into the autumn Budget, and we would like to bring forward the equipment plan to early autumn—say September.

- Q58 **Luke Graham:** Thank you very much. This is the last question from me. From an internal point of view, do you have full and accurate management accounts that you are able to review on a periodic—i.e. monthly—basis, so you can track your projects and keep financial controls?

Cat Little: We do.

- Q59 **Chair:** Can we just be clear about a date? Will you be giving this annual report to Parliament on a set date? You have given us a timetable for the next year, but will you commit to doing that every year, just to be clear?

Cat Little: Yes.

Stephen Lovegrove: Chair, perhaps I may just pick up on a point about transparency. You have given us a hard time in the past, particularly when we have written back to you with—I think you felt—obfuscatory correspondence. It is certainly not meant to be, but I think there is a real area for us as a Department to do better in. We are not going to win any plain English awards in Defence. It is the way that the Department communicates with the outside.

- Q60 **Chair:** So you are committing to getting a Crystal mark, are you?

Stephen Lovegrove: I do not know if I am going to quite go that far, but I think we certainly can work harder. When I was rereading the equipment plan for this session, the numbers I quoted in terms of ranking of categories of where we are spending—I actually had to put that together myself. We can present the huge amounts of information that we do provide much more intelligibly.



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Chair: I am really pleased that you say that, because it is taxpayers funding it, and taxpayers should be able to understand where their money is going. At the moment, we work hard to get into it, but that is partly our job. I think it should be available to everyone. Thank you for that commitment. We will hold you to that.

Stephen Lovegrove: Hopefully not the Crystal mark. Not for a year or two, anyway.

Chair: I think now they will be writing to you to tell you how to do that—the Campaign for Plain English. I’m a foot soldier for that.

Q61 **Stephen Morgan:** I want to cover aspects of support costs that are covered, obviously, in the NAO Report. We previously had a session on cannibalisation in equipment. Can you help me to understand why you reduced the budget for support costs, when demand is increasing?

Lieutenant-General Mark Poffley: I have perhaps a bit of an answer to that, if nothing else. One of the things that we have been doing as part of the efficiencies work is to try and work out what we are looking to support and at what rates for what readiness profiles for the output that you want. We have managed to make it clear that in some places we are over-providing.

Similarly, we have not been as good as we think we ought to be on inventory management, and we have therefore spent quite a bit of time in making sure that we are doing provisioning correctly. That has meant that we have set some targets as part of the efficiencies programme, and we are looking to invest to make sure that we can deliver on those targets as well as reduce down those assumptions where we think they are, quite frankly, a little outdated because our operational profile is now very different to that when those assumptions were first set.

On that basis, we believe that there is capacity for us to take greater risk, if that is how you want to describe it, on our sustainability assumptions. That is something we keep under constant review and, quite clearly, in the current operational context, will be a major feature of the modernising defence programme as a piece of analysis, because we need to refresh it in the light of the contemporary operational picture.

Q62 **Stephen Morgan:** Mr Lovegrove, what impact do you think this is having?

Stephen Lovegrove: I am not aware at all that we have compromised operational outputs, which is the most important aspect of this. We have pinch points in manning, but the system is set up to be flexible enough to be able to take equipment, capability and people and to deploy them against the most high priority tasks and activities. That leaves holes sometimes in less high priority tasks, but that is part of running defence and part of what every Defence Department does. I have not been made aware of any operational outputs that have been compromised as a result of what you raised.



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Q63 **Stephen Morgan:** In terms of cannibalisation, I do not want to cover old ground because we discussed that relatively recently, but, Mr Bradley, how long can you continue to cannibalise parts and maintain operational capabilities?

Michael Bradley: How long can we continue to cannibalise? I was not at the previous hearing, so forgive me if I go over old ground, but to some extent cannibalising is something that will always be there because we cannot have every single part on the shelf for every single platform. It is going to be a fact of life that from time to time cannibalisation is the right solution for us. What we need to make sure is that, when we do that, there is no operational impact from it. I cannot remember all the statistics, but I do not think it was getting to be a particular problem. In our view it is something that will be a fact of life.

Q64 **Chair:** Just to be clear, the National Audit Office did a Report on it and the Department acknowledged it was a useful Report, because I do not think the Department had been aware of the level of cannibalisation. It is one of those things that can creep up on you. As Mr Morgan said, we don't want to go back over old ground.

Lieutenant-General Mark Poffley: Any insight into our business is always helpful because—

Chair: Free consultancy from the National Audit Office.

Lieutenant-General Mark Poffley: We might get that.

Chair: Taxpayer-funded.

Lieutenant-General Mark Poffley: One of the insights was whether we were cannibalising the right things and taking that level of risk on our portfolio of spares. Well, it has assured us that we probably are. Some long lead time items were exposed by that work, particularly in the maritime domain, where we recognise we need to do better provisioning and hold greater stock, but the lead times in some spaces, particularly in the submarine domain, can be years, frankly. You are therefore likely to take a far more cautious approach to that than not. In the operational circumstances, if the operational driver is such that we do need to cannibalise, then of course we make that judgment on the day.

Chair: Mr Lovegrove. We don't want to go over old ground.

Stephen Lovegrove: No. As a general issue, it was a very helpful Report because it did shine a light on something that we had probably needed to think about more deeply, particularly in the coming era where we are going to have fewer numbers of very, very, very complicated bits of kit, which are basically in many cases one of a kind. That raises questions about how you sustain them and provision them affordably, rather than having a whole submarine's worth of kit on the shelf, which is complex. So, it was very helpful and it is something we will continue to think about.

Q65 **Stephen Morgan:** In terms of the affordability gap, I understand that



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you have commissioned a piece of independent work around looking at savings. Could you just say a bit more about that process and when it will conclude?

Cat Little: We have recently commissioned Oliver Wyman to come and assess independently the baseline of our efficiency plan, because I think that while we have done a huge amount within the Department to assure ourselves, having a fresh perspective and an independent who has not been involved in devising our efficiency plans historically would be of great value. Of course, no matter how much we do to assure ourselves, I think that good, forensic, detailed analysis is what is needed to ensure that we are able to see fully over the next 10 years whether or not we think it's credible and doable.

Stephen Lovegrove: I absolutely agree with that. I have said in different fora that we have a number of overlapping efficiency programmes, which we have inherited over the years. There was one in 2010, 2013 and 2015. Being candid, I think that the capacity for a bit of confusion between those and an ability to make sure that they are all operating as a harmonious whole is not something that we have quite got at the moment. So, part of the Oliver Wyman—

Q66 **Stephen Morgan:** So do you not have confidence in your own savings?

Stephen Lovegrove: I do have confidence in the efficiency plans and I do have confidence in our ability, particularly in this area, where, as Ms Little said, with many years to run we have already got 50% of the target. It is time for us to tidy up the efficiency campsite a bit and just make sure that we do not have overlapping issues, where accountabilities for similar programmes are confused. I would just like to clean house a bit and that is part of what the Oliver Wyman work is meant to do.

Q67 **Stephen Morgan:** Just to be clear, when will we have a clean house, then? When do you expect to report on that process?

Stephen Lovegrove: It is strand 2 of the managing defence programme and the Secretary of State has committed to emerging conclusions from that by the early summer. I personally would hope that operationally for us within the Department we would have work coming out of Oliver Wyman that we can work on sooner than that.

Q68 **Stephen Morgan:** And what do you call "early summer"?

Stephen Lovegrove: I think the Secretary of State had in mind the NATO summit, which is in, I think, the second week of July.

Michael Bradley: Since the report was published, I think we can also tell you that the levels of efficiency that we have generated have increased. The numbers that the NAO's Report produced were as at the end of March '17. At the end of this financial year, we will be able to show that we have generated an extra £2 billion-worth of efficiencies. That £8 billion that we talked about earlier is dropping year on year, and we in DE&S now think that we have a very robust process for tracking efficiencies. I think it is mentioned in the NAO Report how we do that now, but we will be able to

show good progress and it will feed into all the work that the permanent secretary is talking about.

Chair: It is the annual report that tells us these things and it is for the NAO, of course, to verify it.

Q69 **Stephen Morgan:** I understand there has obviously been some poor performance in terms of tracking in the past. Are you confident that we will see improvements going forward?

Michael Bradley: Absolutely, I am. If you look at page 27 in the NAO Report, figure 7 outlines the process that we now go through to track our savings. We have a very regimented process that involves tracking each of the opportunities that we identify through a four-stage process, which involves collecting the nature of the opportunity on a standard template, and then we track the progress of that efficiency through, as I say, a four-stage process, as we are able to produce a plan to deliver the efficiency. Once we are confident that we can save the money, we remove the amount that we can save from costings, and then project teams are on the hook to deliver their revised—now lower—costings for us.

The team from the NAO had a look at that process when they came in and did the Report. I think there is a paragraph on the previous page that supports the fact that the efficiencies are being generated. We are in a far better place now from that perspective, in tracking those efficiencies. We will be working very hard now to keep reducing the amount that is outstanding in the equipment plan.

Q70 **Stephen Morgan:** I would like to look at contingencies. Looking at the plan, obviously it increased last year, but it is still insufficient to cover the difference between the likely costs and the available funding. Could you just say a bit more about how you are managing the headroom of contingencies, and what the Department is doing to react to the defence landscape?

Cat Little: I mentioned earlier the £6 billion and the £1.8 billion. There is also, beyond the equipment plan, a general contingency that we hold. There is relative science and evidence behind the setting of those contingencies, but obviously it is constrained by accountability, because our contingencies are not directly funded. We have to generate efficiency or savings in order to afford the luxury of holding contingency at head office. Inevitably, depending on the year that you are looking at—we have more risk earlier on in the programme than later—the contingency is profiled to manage risk in line with the profile of risk.

Stephen Lovegrove: There is also—Mr Bradley will talk more knowledgably about this—within each individual project a degree of contingency, which is, across the piece, actually twice as large as the centrally held contingency. I think it comes to £12 billion. Is that right?

Michael Bradley: That is right. Across the EP—across all programmes—there is £12 billion-worth of risk provisioning. As I talked about earlier, we have been doing a lot of work to improve our risk management.



Q71 **Chair:** Sorry, that is the centrally held bit—

Michael Bradley: No, that is the sum of the individual project teams' risks, which is generated from risk registers on those projects. Each of the project teams will assess the risks around contract costs, contract pricing, and so on, and will put risk provisioning in place across the whole equipment plan. That is an average of 6.7% of what we call RIC—risk inside costings.

Q72 **Stephen Morgan:** Obviously, with the threat of Russia and recent incidents, I just wanted to understand whether you are confident that there is a sufficient safety net for planning over the medium and long term?

Lieutenant-General Mark Poffley: There is for the short term. A big conversation needs to take place about the level of risk that you are prepared to accept into the longer term. We regularly model a series of scenarios to see what levels of escalation we might need to deploy, but that is on an annual basis, going to make some judgments about whether we think the provision is right or not. At the moment, we believe that it is, but one should not be complacent about that.

Q73 **Stephen Morgan:** I just want to understand in terms of the budget going forward—2018 to 2028—are you confident that you will deliver it within budget?

Chair: Mr Lovegrove, you gave a lot of caveats at the beginning.

Stephen Lovegrove: I am confident that by the end of the modernising defence programme, we will have—well, we are very committed to achieving the Secretary of State's ambition of having the programme as being strategically affordable.

Q74 **Chair:** You are answering a slightly different question to the one that Mr Morgan asked. He is asking about this plan. Obviously the modernising defence programme could bring in other capabilities and other funding. Are you talking about the new potential, or the actual?

Stephen Lovegrove: It could bring in other capabilities and other funding. It could also decide that there are certain capabilities that we have at the moment that we place a lower priority on, and that we will either defer—

Q75 **Chair:** What Mr Morgan was driving at was whether the plans for the projects here and the funding for projects that are currently in the plan will deliver on budget?

Stephen Lovegrove: I refer you to Ms Little's comments earlier on. Do we believe that we have sufficient contingency and time to manage within this plan? Yes, we do. It is, however, a pretty volatile picture in terms of aspects of the financial risk we are carrying and aspects of the geopolitical risk we are trying to counter. That is really what the MDP is trying to deal with. I apologise if I am not answering as clearly as I can—sorry, I am answering as clearly as I can; I apologise if I am not answering as clearly



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as you would like. I am very confident that Government as a whole has, in the next few months as the MDP unfolds, a clear desire to get this plan and other aspects of the defence enterprise into a position where we can say it is strategically affordable.

Chair: Then, of course, the pesky politicians come along with SDSRs and change the rules. You have given your caveats, but we will keep probing.

- Q76 **Anne Marie Morris:** Mr Lovegrove, interestingly you talked about your contingency planning. You effectively divided it into your financial risk and your geopolitical risk. How have you gone about trying to assess and monetise your geopolitical risk? At the moment, Brexit coming along gives rise to an awful lot of unknowns for you. We have talked briefly about Russia, which is clearly another risk, but with Brexit, if we had stayed in, we could be part of a European army. We still do not know exactly where we are going to go going forward. How do you assess it?

Stephen Lovegrove: I will give a very brief answer and then hand over to General Poffley. The Department has a lot of very sophisticated planning processes and risk assessment processes. Some of them are around the financial picture. To a certain extent, that is this side of the table. There is a parallel process of looking at threat where we seek to work out where the threat may evolve—that could involve a whole host of different things, and Brexit may have an impact on that, but the actions of countries such as Russia obviously do as well—and we see what types of capabilities we need to be able to counter those threats, avowedly working with alliance constructs, and we effectively feed that back into the financial picture. Those two things happen in parallel, and they are quite iterative. That is the process we typically go through every year. We are now going through a particularly intensive process with it through the MDP.

- Q77 **Anne Marie Morris:** Okay, but it is not quite as simple as the political risk of warfare—whether that is a new Cold War or otherwise—with Russia. You talk about the fact that we should assume that we will not be on our own. You said that right at the start, but given the changing relationships around the world—the relationships with America, with Russia and the 27 members of the EU—how can you possibly assess who those partners are going to be so you can work out what your share of the risk should be?

Stephen Lovegrove: My crystal ball is not perfect by any stretch of the imagination, and no one else's is. The process that we go through when we think about those geopolitical factors is absolutely not something that the Ministry of Defence does by itself. That is absolutely the kind of area where we have intensive engagement with colleagues in the National Security Secretariat, the Treasury and the Foreign Office. It is a rigorous process, in so far as trying to look into the future can be, to try to work out where the most likely threats are and what our most likely mitigations are.

Lieutenant-General Mark Poffley: Interestingly, from a military point of view the threats are becoming in a way a little clearer. We have

traditionally been thinking, particularly in the recent past, about non-state actors as our major threat profile to map against, and that is an important dynamic, because it drives quite a lot of judgments in your equipment selections and your support architectures and so forth. Increasingly, state actors are starting to play stronger, and part of why the modernising defence programme agenda has been brought forward in the way it has is to attend to that. We are looking very carefully at the mix.

As we have seen over the course of the last two years in particular, defence has been relatively stable in our relationships. NATO is still the cornerstone of the defence programme and it drives an awful lot of our agenda in terms of interoperability, open architectures and so forth. That has included our European partners, where particularly Germany and France, as the two other major military powers inside NATO, have retained an interest in what we the British are doing, despite the political agenda of the moment.

We are increasingly seeing wider interest too, particularly from countries such as Australia, Japan, India and so forth. That is throwing up some interesting interoperability challenges and quite a lot of coincidence in our interests and our ambitions. As a consequence, it feeds into the prosperity and the industrial angle, because we are looking to exploit bigger markets and bigger opportunities when we do our acquisition. Much of that has started to coalesce around a series of initiatives that we are calling capability dialogues, where we establish relationships with partner nations. They are the traditional ones and the ones you would most naturally see forming some form of alliance against a malign threat.

Q78 Anne Marie Morris: What happens if you get it wrong?

Lieutenant-General Mark Poffley: There is always a risk of getting it wrong; my job in particular is about getting it the least wrong I possibly can.

Q79 Anne Marie Morris: But surely there must be a protocol if something changes, that gives you access to finances, capability or something. After all, the security of the nation must be the prime responsibility of any Prime Minister.

Lieutenant-General Mark Poffley: Absolutely. Across the portfolio of capabilities, we look at risk judgments about the level of risk we are seeing against a dynamic environment. For example, in the high-end technologies, particularly in the information space, we see a refresh rate that is very rapid and is forcing us to confront some of our acquisition streams and processes to make sure we can respond to it.

Chair: You talk about as least wrong as possible—I think that was your phrase—

Lieutenant-General Mark Poffley: Absolutely.

Q80 Chair: How quickly can you change tack if you realise that some threat is emerging that you had not expected?



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Lieutenant-General Mark Poffley: We constantly monitor how we think the threat is evolving and our ability to respond to it. We have a sequenced process in which we look from the far distance to the very short term, to ensure that we retain some agility in responding. The key to that is that there are some parts of the military capability suite that, frankly, are generational changes. You simply cannot change that quickly.

- Q81 **Chair:** That brings us neatly on to nuclear, which we touched on a little bit earlier. One of the concerns about nuclear is that it is a huge element of the budget; obviously it has now been separated out under the Submarine Delivery Authority and you have the director of nuclear in the Department. You mentioned the Dreadnought and Astute earlier, Ms Little. Will the Dreadnought programme cost more than the forecasts that have been given to Parliament? You talk about it being difficult; will it cost more?

Cat Little: The DG Nuclear has concluded quite an extensive piece of assurance work on costing and is still of the view that it will not cost more than £31 billion, based on the exercise we have just completed. But it is absolutely profiled in a different way from what we think the profile of costs need to be to deliver the first boat in 2030. In the same way that we have brought forward £300 million into this financial year, we think there is a further £1.2 billion of expenditure, compared to the original profile, that needs to be brought forward.

- Q82 **Chair:** So you are re-profiling it?

Cat Little: Yes.

- Q83 **Chair:** But the total will stay the same?

Cat Little: The total will stay the same, but we think we need to spend more in the earlier years, mainly because we need to ensure that we are driving as much productivity as possible in our supply chain to build in the early stages, and to make sure that we fund it at the level we believe is necessary.

- Q84 **Chair:** That makes it sound a lot rosier than what you described earlier, where it is all very difficult and there are lots of complexities. We understand that, but we remember as a Committee having discussions similarly about Sellafield—the top three international engineering challenges and they were all very difficult—and we have done a robust job of trying to keep track of those costs. Is it just all too difficult? How are you practically keeping a handle on the costs and making sure you are monitoring where the risks are? You have re-profiled it; is that the beginning or the end?

Stephen Lovegrove: On Dreadnought, the formal arrangement is that there is £31 billion in the budget and a £10 billion contingency. The aim at the moment is to do everything we possibly can to minimise the chances of having to draw on the contingency. After a lot of analysis, we have concluded that the best way of de-risking the programme is to try to front-end-load some of that £31 billion. I would not feel remotely comfortable



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sitting here and telling the Committee that the chances of never drawing on a contingency were absolute. I think—

Q85 **Chair:** So you are front-loading it. Do you see that as a mitigation of the risk of the costs going up early? That really is properly profiled.

Stephen Lovegrove: Absolutely, yes I do. An example—

Chair: Give us an example, to make it concrete.

Stephen Lovegrove: The simplest example is in the supply chain. The prime contractor is British Aerospace, up in Barrow. It relies on huge numbers of sub-suppliers who are providing very bespoke material for the submarines. If we do not put sufficient money into the programme to allow those sub-suppliers to invest in the valves or whatever it happens to be that is required and we just drip-feed it in, the sub-suppliers, who are not as big as BAE and cannot absorb that kind of up-front cost, will turn on the tap, turn it off again, then turn it on and turn it off again. That will not be good value for money for the taxpayer at the end of the day.

There is obviously always a difficult conversation with the Treasury when you say, “We would like to invest to save. We would like to front-end-load in order to keep value for money across the whole of this 30-year programme.” They will, quite naturally, want to probe those discussions very hard. We have had very fruitful discussions with the Treasury and they absolutely understand the principle there.

Q86 **Chair:** The principle is easy. How are you going to do it, though?

Stephen Lovegrove: Exactly.

Chair: Is this going to be part of the transparency and reporting to Parliament?

Stephen Lovegrove: We will be very transparent about how we are, at the moment, seeking to bring forward money across this 30-year programme.

Chair: No doubt we will come back to this.

Q87 **Sir Geoffrey Clifton-Brown:** Is part of your answer the supply chain and how much of it is based in the UK?

Stephen Lovegrove: For the Dreadnought, a much higher proportion of the supply chain, absent the Government-furnished equipment like the common missile department and so on, does come from the UK.

Q88 **Sir Geoffrey Clifton-Brown:** So we are not going to get the problems with the F-35 of others having to supply bits of it?

Stephen Lovegrove: No.

Lieutenant-General Mark Poffley: I just want to dispel a potential myth—I am not sure it is a myth. Even with the F-35 there is a significant



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British contribution to that platform. That is common across many of our capabilities. There are very few that are sovereign.

Stephen Lovegrove: But nuclear has a much higher component of British work in it than pretty much any other project because of the nature of it.

- Q89 **Sir Geoffrey Clifton-Brown:** Can I ask you one more general question on geopolitical risk? Are we on the verge of a new technical revolution?

Stephen Lovegrove: Yes, I think we probably are, and you may at some point wish to take a briefing from our chief scientific adviser, who would certainly think that was the case. He was appointed because he had particular skills, experience and expertise in artificial intelligence and robotics. That is certainly an area that will change the nature of warfare and conflict very, very, very profoundly over the next 20 years.

- Q90 **Sir Geoffrey Clifton-Brown:** I was thinking about electromagnetic devices that the Chinese are reported to be investing heavily in.

Stephen Lovegrove: I am not an expert on that, but that is certainly an area where things are moving very fast. Energy-directed weapons is another area where you can see some very significant changes.

Lieutenant-General Mark Poffley: That is the area that I think is most revolutionary in military affairs. Any manipulation of the electromagnetic spectrum is front and centre of our thinking and is attracting a degree of prioritisation in our programme.

- Q91 **Chair:** I want to go back to the defence modernisation programme, which we have talked about quite a bit already. It does seem a bit like another SDSR—or a slice of it, at least. How much are you looking at the prosperity to the UK element? I think it is strand 3 of the plan. How much are you taking into account the needs of UK industries, especially in the light of Brexit?

Stephen Lovegrove: A good deal. We have the No. 1 strand organising the operating model in defence more effectively than it is at the moment. The No. 2 strand is the efficiency baselining that we talked about. No. 3 is about the nature of our supplier relationships and how we can do two things: drive best value for money for the taxpayer as we go round procuring kit, and support very important British industries as they try to provide us and other countries with matériel—you will have seen that with Saudi Arabia.

- Q92 **Chair:** I understand that in an answer to a question from Kevan Jones MP, it was said that of the projects over £100 million, none of them met the prosperity agenda. I think I am right in saying that—I passed that on to someone, so I do not have it in front of me to quote. It is not always the case that large projects take into account the needs of UK industry. What are the criteria by which you measure that? We will not go into single source procurement, which we have looked at before, and there is also Government procurement, but on the needs of UK industry and the need for the UK to have resilience by having an industry that can deliver—you talked with eloquence about the supply chain for nuclear submarines, for



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instance—why is that not taken into account more with very large projects?

Stephen Lovegrove: I think it is taken into account in pretty much every single circumstance. I am not going to sit here and say, though, that there are not moments when we feel that the best piece of kit, or the best price for similar pieces of kit, might come from a non-British supplier. In the first instance, it is most important that we have the right capabilities to deliver battlefield effect and to keep our people safe. The Committee would expect us to do that. There is always a balance; nuclear is a clear example of where there are very specific and powerful reasons why it must be a British enterprise, but it is not always as strong as that. As I say, I think you would expect us to go for the best bit of kit in most instances—in various instances.

Lieutenant-General Mark Poffley: Can I elaborate on that? My organisation looks very carefully at retaining sovereign advantage—we should never enter a fair fight, in my view—and at retaining sovereign choice later, which usually requires us to understand the supply base. We have seen it in the national shipbuilding strategy work. We recently announced that we are about to do a similar exercise for the combat air sector. I would imagine that we will go into other sectors too. One of the things that we are now putting into our requirement setting is a consideration—an overt and explicit consideration—of what the prosperity components of any requirement would be. That forms part of the judgment. As Mr Lovegrove said, the primary one must be that we never enter a fair fight, then everything else becomes subordinate.

Q93 **Chair:** We have skirted around the issue that new commitments might come out of the next modernising defence programme. Will that have a knock-on effect on the equipment plan statement this year? Will that be delayed as a result of the programme?

Stephen Lovegrove: I can't imagine circumstances in which it would do—

Chair: But it might have to take into account changes that are only going to come out in the summer.

Stephen Lovegrove: No. I think it would potentially increase the number of projects, and their financial quantum, that are at an early stage.

Q94 **Chair:** If it increases the number of projects—we already have stretch on this plan—have you sought more money from the Treasury for the current plan?

Stephen Lovegrove: We are in discussions at the moment with the Treasury about the 2018-19 budget.

Q95 **Chair:** So, yes. When the new programme is agreed, how quickly and how cost effectively could you drop programmes? As General Poffley has highlighted, submarines is one you could not drop, because it is a 30-year programme. Most of these are not short-term programmes. If it became a choice, how quickly could you see the change? Have you done



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an analysis of what the costs are? I am sure you must be doing that in the negotiations with the Treasury and as part of the modernising defence programme.

Cat Little: For us, the most important thing is that the equipment programme builds on Joint Force 2025, which is the basis for the MDP. Of course, we are about to enter the financial year where we are continuing with that programme, in line with current Government policy. So the idea that we would quickly change some of these big critical foundations of a long-term strategy is highly unlikely. The same approach we took to the publication of the equipment plan this year, while the NSCR was ongoing, was to say, "Look, we need to set out what we are actually doing and how we are spending taxpayers' money now, and, of course, caveat where we think there could be changes." But, to be frank, material changes of this nature in a very short time period are unlikely.

Q96 **Chair:** That is what I suspected. So effectively, the defence modernisation programme is—as has been trailed, possibly by the Secretary of State himself—a bid for more money for the Ministry of Defence. Yes?

Stephen Lovegrove: I wouldn't wish to characterise it like that.

Chair: Above your paygrade, is it?

Stephen Lovegrove: That is above my paygrade, exactly.

Lieutenant-General Mark Poffley: We will bring forward as part of the modernisation programme a clear statement on where we think we are carrying risk against the current threat and what we believe to be required to mitigate those risks.

Chair: So yes—you agree with your colleague, Sir Gordon Messenger.

Q97 **Sir Geoffrey Clifton-Brown:** Lastly, Mr Lovegrove, can I just come back to one of the bigger risks to this budget? We examined the uncertainties around the Dreadnought, the actual submarine bit of the nuclear, but of course the other bit that we do not necessarily control is the weaponry that goes on it. Is there still a risk to this budget of the cost of the weaponry that will go on those submarines escalating?

Stephen Lovegrove: You are obviously right to identify that there are some very big component parts of the Dreadnought programme, which are not the Dreadnought itself. The common missile compartment is the biggest one. That is a very expensive piece of kit, which slots into both our submarines and our American friends' submarines. The weapons themselves are also obviously very expensive. When thinking about the nuclear programme, it is right to just make sure that there is cost pressure being exerted in a downward direction right across the piece. We have had well-documented cost increases in some of the facilities at AWE, which are fundamentally about building the UK's independent nuclear warheads, and those can be very big. So yes, you are right to identify that it is more than just the submarine.

Q98 **Chair:** A small percentage of a large budget is a lot of money. My final



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question is what it is that keeps you awake at night. We have talked about the threats from Russia; we have talked about other strategic threats; we have talked about the budget. General Poffley, what is the thing that worries you most?

Lieutenant-General Mark Poffley: If I were to describe an area of concern in risk terms, it is about the resilience of the propositions against a changing threat profile—that is your point in many ways—that accelerates beyond our capacity to actually adapt to it. Certainly, in some of those bigger programmes and in areas such as stockpile, that has some profound implications.

Stephen Lovegrove: I would echo that. I have a slight refinement on it. We have perhaps an increasingly small number of increasingly sophisticated platforms. That means that aspects of resilience are not as great as I think we would necessarily always like. Certainly, in some of the situations that Ms Morris mentioned, we could find ourselves running out quite quickly, which then puts you very squarely in the game of ensuring that your alliances are strong and effective.

Cat Little: I mentioned briefly earlier that I think there is that trade-off between short-term decision making to live within your means versus the long-term sustainability of the programme.

Michael Bradley: I don't think anything keeps me awake at night.

Chair: Nothing keeps you awake at night. Give him the job then. Or maybe he should worry a bit more. So everything is fine at DE&S, is it? You must have something, some little thing that worries you. Please, tell us.

Michael Bradley: I think we all share the same ambition and concern that the level of financial risk that we are currently running with is something that we find uncomfortable. We share an ambition to come out of the modernising defence programme in a position where there is less risk and less change as a result.

Chair: I think you have all made a clever bid for your own case. Thank you very much for your time. The transcript, as ever, will be up on the website, uncorrected, in the next couple of days. Our report is likely to come out after the Easter recess at some point. There are quite a few things we will pick up outside of this meeting and we take you up on the offer of some briefings in the Ministry of Defence as you are going through this important process. While we are watching you carefully on the money, we certainly wish you Godspeed in making sure that this country remains safe, especially in this very sobering week.