

Defence Committee

Oral evidence: Ministry of Defence Annual Report and Accounts 2018-19, HC 91

Tuesday 15 October 2019

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Members present: Dr Julian Lewis (Chair); Martin Docherty-Hughes; Mr Mark Francois; Mrs Madeleine Moon; Gavin Robinson; Ruth Smeeth.

Questions 1-160

Witnesses

I: Sir Stephen Lovegrove, KCB, Permanent Secretary, Ministry of Defence, Ms Cat Little, Director General Finance, MoD, Air Marshall Richard Knighton, CB, Deputy Chief of Defence Staff (Financial and Military Capability) and Sir Simon Bollom, KBE, CB, Chief Executive of Defence Equipment and Support.

Examination of witnesses

Witnesses: Sir Stephen Lovegrove, KCB, Ms Cat Little, Air Marshal Richard Knighton, CB, and Sir Simon Bollom, KBE, CB.

Q1 **Chair:** Good afternoon, and welcome to the Defence Committee's session on the Ministry of Defence's annual report and accounts 2018-19. We have four highly qualified witnesses before us today, and as usual, I shall ask each of you to introduce yourselves briefly for the record, starting with you, Sir Simon.

Sir Simon Bollom: Simon Bollom, CEO, DE&S.

Ms Little: Cat Little, Director General Finance.

Sir Stephen Lovegrove: Stephen Lovegrove, the permanent secretary at the MoD.

Air Marshal Knighton: Air Marshal Richard Knighton, the Deputy Chief of Defence Staff for military capability.

Chair: Thank you. We are expecting there to be a Division at any moment, whereupon we will obviously have to interrupt, but in optimism we begin with Ruth Smeeth.

Q2 **Ruth Smeeth:** Good afternoon, everybody. How regularly will you report to Parliament on progress against the three priority areas identified in last December's—I can't believe it was last December—Modernising Defence programme report?

Sir Stephen Lovegrove: That is a good question. I am not 100% sure that we have a schedule for reporting to Parliament, and I am very happy to consider one. If you would like me to give you a bit of a headline now as to those things, then I will certainly do so.

The easiest way to think about modernising defence and the Modernising Defence programme was under the three main headings that we had: Mobilise, Modernise and Transform. Mobilise was really about making sure that we are capable of being able to use effectively what we have at the moment. That is about ship availability, it is about weapons stocks, it is about training, among other things—but those are some elements of it.

Modernise is, as much as anything else, about investing in new types of capability which we will need in the future: directed-energy weapons, different types of cyber-capabilities, and so on. Transform is really about making sure that we have an enduringly affordable base for defence, which at the moment we do not quite have. We want to be able to invest in a variety of ways of running the Department, principally around support and logistics, acquisitions, people and digital and IT, which over a period of time will reform—as I say, on an enduring basis—the cost base of defence.



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We are making a lot of progress on all of those fronts. We are dealing with weapons stocks, for instance; we are looking hard at issues of ship availability, which no doubt we will come back to later on in the session. In Modernise, these are balance of investment decisions—*[Interruption.]*

Chair: There we go; break time. The Committee is adjourned for 15 minutes, so we will get our skates on and get back to you as soon as possible.

Sitting suspended for a Division in the House.

On resuming—

- Q3 **Ruth Smeeth:** Sir Stephen, you were touching on the MDP and some of the financing available around the MDP, so can you give us some more information about whether there is enough money to implement it within your programme? How much have you got, and is it enough?

Sir Stephen Lovegrove: We have budgets of approximately £39.5 billion at the moment. We have been, obviously, offered more money in each of the last three years, which we are very grateful for. There is always a balance-of-investment decision to be made in defence, no matter how much money you have. If we had completely unlimited funds, we would pretty much have to make balance-of-investment decisions.

We are happy with the kinds of investments that we are making at the moment. We are able to invest in the transformation of the business practices. We are able to invest in modern and new capabilities. And we are able to invest in the mobilisation of existing capabilities. But if you were to say to me, "Would you prefer to have the security of a multi-year settlement?", which would allow us to plan more effectively across all those three particular lines of activity, obviously the answer would be yes.

Your first question before the vote was how often we are proposing to report. The moment at which the MDP would find, as it were, reporting expression to Parliament would be in any SDSR of next year, when hopefully we would get multi-year settlements, which would allow us to do that.

- Q4 **Ruth Smeeth:** You have jumped ahead to my two further points. First, what impact there has been from the lack of a fully comprehensive spending review on your priorities, in terms of multi-year spending? Secondly, when do you expect the next SDSR to take place?

Sir Stephen Lovegrove: It goes without saying that much of what we do, particularly in the capability and equipment area, concerns long-term programmes. We often feel that the right thing to do in terms of value for money is to make bigger investments upfront, so as to defray risk in the out years. We find it more difficult to do that when we are not dealing with a multi-year settlement, and some of those kinds of decisions have had to be made. We would definitely prefer a longer term multi-year settlement. As I have said, I hope we will get that at some point next year as it will be five years since the last SDSR.



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It will obviously be for the Government to decide whether there is an SDSR or a comprehensive spending review, let alone a security and defence review. As you can imagine, we have done a lot of preparatory work with the Modernising Defence programme, and before that with the national capability security review. We are ready for that, and we hope for some event like that next year.

- Q5 **Ruth Smeeth:** How different would the next SDSR be to the MDP? Is it a valuable piece of work, given the amount of work that went into the MDP? The issue for us was always about whether there would be an SDSR so quickly afterwards.

Sir Stephen Lovegrove: It would be extremely valuable, which is not to say that we think the theoretical or conceptual underpinnings of an SDSR would be hugely different for defence. It is not as if we stick our analytical heads on only once every five years—we are constantly working on this kind of area. I would identify two particular advantages to an SDSR. One is the money. The MDP was not a fiscal event in any shape or form; it was about setting a policy headmark and ambition. The fiscal events associated with that were one-year settlements. That is not the case with the SDSR, which is meant to last for five years and gives much greater certainty of long-term money.

The second thing about an SDSR—this is advantageous to the Government and to us—is that it gives us the opportunity for a different set of deeper and richer conversations with other colleagues across the security institutions in Government, in a way that sometimes purely defence discussions do not. We are not under any illusions, particularly in a world of constant competition, that we are doing this as a solo sport. This is not a defence sport. We want an answer that works for the whole of Government, and that is constructed with the Home Office, the agencies, DFID, the Cabinet Office and all other interested parties. The SDSR gives us the opportunity to do that.

- Q6 **Chair:** May I take you a little further on that? You will recall that the Modernising Defence programme was not originally intended to happen at all. It was originally the national security capability review, and it became clear that that mini-SDSR would say that we had only the same pot of money for defence and security taken together. It was coming down in favour of spending a lot more money on what are called 21st-century threats—cyber-threats, intelligence and so forth—and defence was going to take another hammering. That was when the then Secretary of State, Gavin Williamson, set up the MDP so that you could look at what defence required, without that being done in the context of a fixed pot of money that would result in some pretty horrendous cuts that were mercifully averted. Are you going to fall into the same trap with the SDSR? You say you want to have all the Departments with a seamless defence and security strategy, and that of course is admirable, but it is not admirable if you lump all the budgets for those together in a single pot and then say, “Well, if we’re going to spend more on intelligence, cyber and other 21st-century threats, the conventional Armed Forces are going to take further cuts.” That was the trap from which Gavin Williamson extracted



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you. Are you about to walk into it again at the time of the next SDSR?

Sir Stephen Lovegrove: The Secretary of State did a terrific job while he was in the Department, but I do not recognise the characterisation of the NSCR that you have just given. The NSCR was certainly resource-neutral, because it was being done in isolation from any kind of fiscal event, so it did not really have any opportunity to be anything but resource-neutral.

Q7 **Chair:** Will the SDSR be done in the same way?

Sir Stephen Lovegrove: I would be very doubtful that the Treasury would say that an SDSR, which is likely to be alongside a spending review, will inevitably be resource-neutral. This is the moment at which the centre of Government—the Prime Minister, the Chancellor and so on—decide where the national priorities ought to lie. There may be a bit of shifting of money towards defence and security; there may not. I do not know.

Q8 **Chair:** Can we have a guarantee, as far as it is within your power, that you will ensure that you never again find yourself in a situation of conducting a fiscally neutral SDSR? There is no doubt about it; we saw in *The Times* a very specific table of all the major cuts in the conventional Armed Forces that were going to have to be inflicted if the national security capability review plan had proceeded.

Sir Stephen Lovegrove: I do not particularly want to comment on the press reports at the time, but I can assure you that any actions that we were considering taking or not considering taking were absolutely nothing to do with a shift of resources from one part of the security establishment to another part of the security establishment in the NSCR.

Q9 **Chair:** So the plan to get rid of the two amphibious assault ships and 1,000 Royal Marines, just to give one example, was not related to the fact that they wanted to spend more money on countering cyber and intelligence, notwithstanding a very specific report in *The Guardian* that set all that out?

Sir Stephen Lovegrove: I am not going to comment on specific measures such as the ones you mention, but I can absolutely—

Q10 **Mr Francois:** Why not?

Sir Stephen Lovegrove: Because it would be inappropriate for me to do so.

Q11 **Mr Francois:** But this is the Defence Committee.

Sir Stephen Lovegrove: I am afraid those questions ought to be directed towards Ministers. What I can say is that there is absolutely no question of any other parts of the security establishment, as a result of the NSCR, effectively making the kinds of raids that you are talking about on the defence budget. That is absolutely not the way in which that process evolved.

Q12 **Chair:** There was a very well informed report by Ewen MacAskill in *The Guardian*, which attributed to senior civil servants the fact that a battle



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had been raging between the security side and the defence side, and the security side had come out on top until this Committee produced its work on not scrapping amphibious assault ships and the Defence Secretary accepted it.

Sir Stephen Lovegrove: It is entirely for the Committee to decide which senior civil servant they wish to believe, but this senior civil servant is telling you that there is absolutely no way in which that zero-sum game between the Defence Department and other bits of the security establishment was being played out during the NSCR. It simply did not work like that.

- Q13 **Chair:** So you are saying that all those cuts that were listed to the Army, the Royal Navy, the Royal Air Force and, above all, the Royal Marines and the amphibious assault ships were not going to happen?

Sir Stephen Lovegrove: Well, they did not happen. No decision was taken to make those cuts. But I think the point you are asking about is whether, somehow or other, other bits of the security establishment in Whitehall were capable, in that process, of trying to get some of the defence budget. That simply was not the way in which that process worked.

- Q14 **Chair:** You will be pleased to know that I will not pursue this much further, but they did not happen because the Government was forced to stump up some extra money and prevent them from happening. The main point of this questioning is about whether we can rely on the Ministry of Defence not again to get itself caught in a situation where its capabilities are being lumped together and considered as a whole with the capabilities of what we might call the security establishment, cyber and so forth, in a financially neutral envelope.

Sir Stephen Lovegrove: You can rely on my understanding that an SDSR in the future will not be financially neutral because those kinds of exercises never are. You can also rely on my assertion that it would not be a question of "again", because that has never happened.

Chair: We will have to leave it at that.

- Q15 **Mr Francois:** Sir Simon, there is a shortfall of between £7 billion and £15 billion in your latest equipment plan. The NAO, in its analysis, is "not fully confident" in the robustness of your underlying assumptions. Some 84% of that shortfall arises by 2021-22. You are in charge of the equipment plan. How will you plug the funding gap?

Sir Simon Bollom: I will answer your question, but I will also defer to Ms Little on the gap. I can only operate with the funding that is allocated, so where there are budgetary constraints, Ms Little and the team will ask me for options in terms of constraining spend, slipping spend, and accelerating spend in some areas, and that is what I have to do.

Ms Little: If I could perhaps add to that, the equipment plan covers, in large part, the work of the DE&S but it also covers our IT, our cyber and our nuclear activity.

Q16 **Chair:** And some risk?

Ms Little: Yes. The NAO report last year alluded to the fact that when it came to our assessment of financial risk, specific measures such as forex and some of the things that are not in our control, particularly external factors and our ability to explain how efficiencies were delivered, the Department had to make a number of improvements. Certainly, since last year we have done a huge amount of work in all those areas to ensure that the assumptions and the way in which we plan over the next 10 years is significantly improved.

On the gap of £7 billion to £14 billion, the upper end of that threshold assumes that every single risk that could possibly crystallise went against us and there were no other opportunities. That scenario, I suppose, comes back to the need for a multi-year spending review. The way that we have been managing that gap in the last two years is by putting in bids to the Treasury for further funding. Until we have a multi-year settlement and are able to explain how, over the next 10 years, we need to fund priority programmes, we will not be able to fully close that gap.

Q17 **Mr Francois:** Forgive me; this is part of the problem. The MoD is run on what you might call the Mr Micawber principle that something will always turn up. Somehow the Treasury will eventually always come up with this magic dollop of money that gets you out of trouble, so in the meantime, you fudge everything to get you to the Mr Micawber point. It never quite happens that way.

When we asked the NAO, "Why can they never balance the equipment plan?", it told us, "Because they are not very good at managing their contractors." That is their bottom-line conclusion of why you cannot make the numbers add up: you cannot make the contracts run properly. Let us test that briefly. MFTS: total basket case, but we will come back to that later. Warrior capability update programme: critical for the Army, years late and going nowhere. Sir Simon, where are we on Warrior?

Sir Simon Bollom: On Warrior, we re-baselined the programme in April this year. It is true that that programme had slipped by 18 months and has cost us in the order of £200 million.

Q18 **Mr Francois:** It has cost you or cost the contractor?

Sir Simon Bollom: It cost us and it cost the contractor.

Q19 **Mr Francois:** But the taxpayer—a fifth of a billion pounds.

Sir Simon Bollom: But can I just say that we changed the requirement as well. We introduced a new requirement for a 40mm smoothbore gun. As a result of how the budget replanned, we also slipped the in-service date.

Q20 **Mr Francois:** To summarise, you have wasted a fifth of a billion pounds and it is going to come in later than it would do. The armoured infantry is critically reliant on it. You have changed the gun. It was originally caseless ammunition. You couldn't make that work, and now it is going to



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come in late. Is that about right?

Sir Simon Bollom: No, it isn't, with respect. We changed the requirement. We added to the capability through the smoothbore gun. We made some very significant modifications to the turrets and the sighting system. We spent more on the development and therefore into production as well.

Q21 **Mr Francois:** But they still haven't made it work, have they?

Sir Simon Bollom: The programme is moving ahead well. It has hit the capability milestones—the 40 test points that were required have been achieved.

Q22 **Mr Francois:** Is there a working prototype in trials?

Air Marshal Knighton: Yes.

Q23 **Mr Francois:** Working?

Air Marshal Knighton: Yes. I've driven it.

Q24 **Mr Francois:** Right. Does the gun work now?

Air Marshal Knighton: They have fired the gun, and fired on the move as well.

Q25 **Mr Francois:** I didn't ask if they had fired it; I asked, did it work?

Air Marshal Knighton: Yes.

Q26 **Mr Francois:** Right. So a fifth of a billion quid and way late—that is Warrior.

On A400M, £2.6 billion and a handful of them available at any one time. The crews that work on it call it the dog. At some point in your career, Sir Simon, you were associated with the programme. How are we doing on that one?

Sir Simon Bollom: All the equipment has now been purchased. I want to take you back. You used the word "dog" again.

Mr Francois: That is what crews who work on it have told me.

Sir Simon Bollom: I think when you completely reconstruct a flying training system and you re-catalyse it from end to end—aircraft, simulators, emulation; it is potentially a completely world-class training system—that takes in with it a certain amount of risk. It has taken us longer than was planned when the contract was let in, I think, 2008.

Q27 **Mr Francois:** Sorry—did you say training system?

Sir Simon Bollom: Yes, training system.

Q28 **Mr Francois:** I said A400M.

Sir Simon Bollom: Oh, sorry.

Q29 Mr Francois: It is a transport aircraft. That is what I asked you about.

Sir Simon Bollom: I know. Okay. A400M—reset. That has had some teething problems. We have covered this before in this Committee. Last time, in terms of availability, I mentioned that it was not as good as it should be. We were at about four aircraft. We predicted that by this time we would be at six task lines, and that is where we are now. The engineering modification programme and the combustion chamber cracking has been sorted out.

The other problem was the ground support system—the MDS. We have now got to a point where almost all the aircraft are loaded on to the MDS. I would say that the prospects going forward are much improved.

Q30 Mr Francois: Six out of 25.

Sir Simon Bollom: Six out of 20.

Q31 Mr Francois: I thought we bought 25.

Air Marshal Knighton: No, 22.

Sir Simon Bollom: We have got 20 at the moment and another two to be delivered.

Q32 Mr Francois: Six out of 22. So less than a third.

Sir Simon Bollom: You also have to remember that this is an evolving programme. We are putting the early batch aircraft back into retrofit, so actually what we are getting is six out of 10 at the moment.

Mr Francois: No more questions, Chair—can't even tell one programme from another.

Sir Simon Bollom: Fair enough.

Q33 Mrs Moon: One of the things that has been worrying and exercising the Committee quite a lot is how you are going to meet the four main purposes of good quality Government accounts and financial information identified by the PAC and the Treasury. How are we going to achieve that? Is that a work in progress or do you have a plan?

Ms Little: The four priorities for financial reporting set up by the PACAC is integrated into our improvements for the annual reporting account. There is also a cross-government simplification and streamlining project, which we are part of. For me, every single year, our accounting and financial reports are being improved.

This year, I hope you will have seen much more effort in the way in which we simply explain how our money is used and what we have actually delivered. The understandability of that in plain English, so that both Parliament and taxpayers can understand what we have done, is a constant endeavour. We work very closely with the NAO and with Treasury, as well as some of the main accountancy boards, to make sure

that all those principles are integrated in the way in which we pull together the annual report and accounts.

Q34 **Mrs Moon:** The MoD's accounts have been qualified for 10 years in succession. How will all these changes affect that? Will they?

Ms Little: I hope our explanation for why the accounts are qualified in respect of IFRIC 4 and IAS 17, which pertain to the way in which we account for leases and embedded leases, is more understandable within the accounts. One of the priorities is to make sure that those quite technical things are put in plain English in the documents.

Of course it gives me no pleasure at all, as a chartered accountant, to say that my accounts are qualified; that is a basic fundamental hygiene factor. We agreed several years ago—nearly a decade ago—with the Treasury and the NAO that the cost, effort and time that would be needed to correct that historical qualification was not good value for money, so all our efforts have been going into complying with the new leasing standard, which comes in in April 2020. It is an accounting standard that will remove the distinction between finance and operating leases. So far, we have assessed 11,000 contracts to ensure that we understand how we should account for those leases. My expectation, depending on how we now proceed through the audit process, is that we can once and for all remove that qualification, and that is where we have been putting all our effort, time and resources.

Q35 **Chair:** I will bring in Gavin Robinson, who has just joined us, in a moment, but I just want to check something with you—Cat in particular.

I am told that there have been improvements in the way in which you have been presenting the accounts. The NAO feels that last year's accounts were clearer than previous accounts, and that one of the problems with the qualification of the accounts is whether the Department sufficiently understands the contracts to which it is committed. What do you think you will be able to do, as you bring your touch to everything, to build on the improvements that have been made? Do you feel confident in making a prediction that a time will come reasonably soon when the accounts will not be qualified?

Ms Little: Of course we will do everything within our power to make sure that we set ourselves up to remove that qualification. As I keep saying to my team, that is a basic thing that we have just got to get right, but it is hugely reliant on the delegated bodies within the organisation understanding contracts, understanding what IFRS 16 is, which is no mean feat in itself, and knowing how you apply that standard to every commercial arrangement that we enter into.

We have tens of thousands of contracts, so for the last two years we have been working with our delivery agents and the frontline commands to make sure that we have improved not only the understanding of IFRS 16, but our contract management within the Department. We are working very closely with the Cabinet Office on upgrading all the training for all our contract managers, and our ambition over the next two years is to ensure



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that there is a minimum standard of contract management training across the whole Department—we are talking about several thousand people. On IFRS 16, we estimate that we have somewhere between 1,500 and 2,000 people whom we need to train.

In Simon's organisation, there are online videos, resources and training materials that we are rolling out across the whole of MoD. Our anticipation is that if people understand what it is that they are looking for, it becomes embedded in the way in which we go about our business day to day.

- Q36 **Chair:** Have you been able to establish exactly what the reasons were for the accounts continuing to be qualified? Do you then try to take in hand the people who, sadly, did not meet the required standard? Do you think that you have got nearer to not having the accounts qualified this year? Would you like to hazard a guess as to whether you are in striking distance of escaping from this next year?

Ms Little: We still have a lot of work to do. Having read all 11,000 contracts that we think are within the scope of the new accounting standard, we now have to value them, assure the quality of that valuation, and work out how to then bring it on to the balance sheet. Our work is by no means done and there is a lot to do in the next six months.

- Q37 **Chair:** Do you think that you have got closer to not being qualified this year than the year before?

Ms Little: Absolutely.

- Q38 **Chair:** Do they give you a sort of points score, so that you know what your grades are, as if it were a GCSE?

Ms Little: I am afraid auditors don't quite work that way. I would say that the previous qualification, in part, is because there are lots of people who did not think it was their responsibility to understand accounting standards and left it to technical finance people to do that work on their behalf. Of course, accountants are not there on the frontline; they are not running programmes.

One of the biggest changes that we have made, certainly in my time, is the amount of training to non-accountants that we are doing in the core standards that impact our work. You may recall me coming to the PAC to talk about contingent liabilities. We have trained nearly 3,500¹ people on IAS 37, which, I have to say, is my favourite accounting standard and everyone should understand it. Ultimately, we need to keep going and ensure that people see it as part of their responsibility, not just the finance function.

Chair: I think it is a mark of approval that the NAO did appear to recognise that you are making progress. Obviously, this is a discussion to be continued in 12 months' time.

- Q39 **Martin Docherty-Hughes:** This question relates to previous questions to

¹ Clarification: MoD corrected the answer from 3,500 to 1,300



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Cat or Simon. Of those contracts that we talk about for those non-accountants, how many would be dollar-denominated?

Ms Little: I do not know off the top of my head. We don't look at the dollar and euro requirement by contract necessarily, but we forecast by volume. I could probably give you that answer if I had a bit more time to go away and have a look at the analysis.

Q40 **Martin Docherty-Hughes:** If you could, write to the Committee about it, because I think it would be interesting to understand the value impact of the dollar on contracts and on spend, as well as on non-accountants having to deal with accountancy procedure in other denominations.

Ms Little: Of the £186 billion that we are due to spend over the next 10 years, about £30 billion is in dollars and about £6 billion is in euros—if that gives you a sense of the scale of what we are talking about.

Q41 **Mr Francois:** You are assuming an exchange rate for the equipment plan of about \$1.45.

Ms Little: That is where we started in our planning. The average forward purchase that we got for this year is \$1.34.

Q42 **Mr Francois:** It is a 10-year plan, and in 2019-20, according to the NAO, you are at \$1.40, and in the rest of the plan you are \$1.45. The pound was trading yesterday, I believe, at \$1.26, so unless the pound goes the way that you have anticipated—if anybody could do that accurately, they would be billionaires on the FX market—if you are 20 cents out, over a \$30 billion programme, that is a massive hole in the equipment plan, isn't it?

Ms Little: It absolutely is. Foreign exchange rates are getting much harder for us to predict, plan and mitigate against. A year ago, we thought even \$1.45 was a credible planning assumption. We do not think that today. When our equipment plan is released on 7 November, you will see that we are reducing our exchange rate expectations.

Q43 **Mr Francois:** But you take the simple point, Cat: that the more US kit you buy—you might buy it for good operational reasons originally; it might be the best bit of kit—the greater the exchange rate risk to keeping the plan in balance.

Ms Little: Absolutely, and I will be frank: it is incredibly difficult for us to mitigate against that risk.

Sir Stephen Lovegrove: It is something that we have spoken to the Treasury about on many occasions, as I imagine you would expect us to.

Chair: I am going to do a slight change in the batting order, having got Gavin all keyed-up there, because Mark, you must leave us in a few minutes, so we will shift to your question about Capita and then we will come back to Gavin.

Q44 **Mr Francois:** Thank you, Chair. I will try not to be too long. The NAO reported at the end of last year that Capita had not met its performance



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targets for the number of new recruits in 37 out of the 38 months to September 2018. When the contract was let in 2012, it essentially had two objectives. One was to increase recruitment into the British Army. In that respect it has been an unmitigated disaster. But it was also intended to save in the order of a quarter of a billion pounds over the 10-year programme. How much money have you saved to date?

Sir Stephen Lovegrove: To date—that is an interesting question.

Air Marshal Knighton: I think, Mr Francois, the net benefit was £180 million. We are still forecasting that.

Q45 **Mr Francois:** No, the NAO said that, “In 2012, the Army forecast that the Programme would achieve financial savings of £267 million by 2022”. That is from the NAO’s report into Capita.

Air Marshal Knighton: You have to offset that with the costs that you would need to invest in it.

Q46 **Mr Francois:** I am just telling you that the NAO said 267. Anyway, go on.

Sir Stephen Lovegrove: I think the 267 is the same as the 180. It is just a net figure as opposed to a gross figure.

Q47 **Mr Francois:** Crack on—how much have you saved?

Air Marshal Knighton: The question was—

Q48 **Mr Francois:** Look, I’ll help you. In October 2018, the MoD claimed “to have saved £25 million in the first six years”—that is according to the NAO—“and will achieve further savings of £235 million in the remaining four years.” Is that estimate still credible?

Air Marshal Knighton: We would need to go back and give you the profile. I do not have that information to hand.

Ms Little: Broadly, the answer is yes, but the profile is now more backloaded, because we have not been able to deliver it as quickly as we anticipated.

Q49 **Mr Francois:** It’s a 10-year programme, and you are six years in. So far, you have saved £25 million. In the remaining four years, you are going to save not short of 10 times that. You are really telling the Committee that that is true.

Ms Little: That is the expectation.

Sir Stephen Lovegrove: That is the expectation, yes.

Q50 **Mr Francois:** How?

Ms Little: It is mainly through the baseline contract payments. The reason we have not been able to release those savings as quickly as anticipated is because we have had to invest much more in the IT to get the contract working in the way in which we had expected. The payment



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mechanism itself—that is, what we actually pay to Capita, without those additional investments—will yield those savings on an annual basis.

Q51 Mr Francois: So you think you are going to save money by not paying Capita for doing the contract?

Ms Little: No—the savings were in comparison with what we would have paid if Capita was not doing it. The baseline amount that we pay Capita is where the saving was made through outsourcing it. As my colleague said, however, we are very happy to write to explain how the profile works.

Q52 Mr Francois: I think your assumptions for saving almost 10 times what you have saved so far are heroically optimistic, to put it mildly.

Sir Stephen Lovegrove: The NAO figure that you are quoting is the same one as the one that we have just been talking about, so they had a look at it and they did not feel that they were completely out of—

Q53 Mr Francois: For time, I am not going to quote the whole NAO report—the Chair would not thank me—but, “We found, however, that forecast savings will not be fully achieved because: the Army has employed additional personnel,” and it goes on to give a variety of other reasons why you are not going to do it. They are just the National Audit Office.

Let us look at the actual numbers recruited. Because of the failure of this contract, large numbers of our infantry battalions are chronically understrength. The Scots Guards are at barely 60% and we have to rob Peter to pay Paul constantly when we send people on operations. It is a 10-year contract. In what year will we actually hit the recruiting target that we contracted for?

Sir Stephen Lovegrove: The head of the land army made some predictions the other day in front of the PAC, where he said that he was very confident that he would be getting 80% of the—

Q54 Mr Francois: That is not the question I asked you, Sir Stephen. In what year will you hit the target that you contracted for?

Sir Stephen Lovegrove: I will have to get back to you on that. I will check with the head of the land army.

Q55 Mr Francois: Forgive me, but you should know this. CDS gave evidence to this Committee last year. He said that you would hit the target in year 10—that is, in the final year of a decade-long contract. Since when has the British Army regarded one in 10 as mission success?

Air Marshal Knighton: What you have set out, Mr Francois, reinforces the point that we see inside the Department. The performance of the recruitment system, particularly in the Army, has not been good enough. There are, though, some very positive signs of improvement—some of those you have in front of you—

Q56 Mr Francois: You have been telling us this for five years. It is always just about to get better, Richard, and it never does. You said recruitment in the Department—sorry, we are tight for time; I do not mean to be



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impolite. Last year, the RAF very nearly hit their total recruitment target. They do it in-house; it's not outsourced. The Royal Navy weren't far short of their target. They do it in-house; it's not outsourced. You outsourced the Army, partly because some very senior officers at the time were very keen on it, and it has been a disaster. Now the MoD is planning to outsource all three, isn't it? Surely that's insane.

Sir Stephen Lovegrove: The question is whether you are talking about outsourcing in terms of the back-office machinery that services it, or the approach to recruitment on a day-to-day basis and the way in which people interact with potential recruits. They are different. In the latter, you can see that the Army is getting much closer to the way in which the Navy and the Air Force do it. I think they would accept that it was a mistake to take, as it were, recruiting sergeants away from that first—

Mr Francois: It was!

Sir Stephen Lovegrove: It was. And they are moving back into a position in which serving soldiers are the ones who are doing it.

Q57 **Mr Francois:** Fine—good. Let's just let the Army do it, like the Navy and the RAF do it, and sack Capita. Look, Capita had a strategic contract with the DIO, a 10-year contract. You sacked them after five years because they were useless, but you refuse to sack them on this because the whole system, including some very senior Army officers, are far too proud to admit that they got it wrong. What do you have to do, how badly do you have to fail, to get sacked by the MoD?

Sir Stephen Lovegrove: I took the decision to move away from the Capita contract in the DIO, because it was clear to me and the senior team there, after doing the analysis, that there was a better way of doing it. No final decisions have been made on Capita with respect to recruiting at the moment, but we always have to make sure that we have a better answer than the one that we have at the moment.

Q58 **Mr Francois:** This is my last question, Chair—you have been very decent. The answer we have at the moment is patently disastrous. Go to frontline infantry battalions and see all the soldiers who are missing. We are companies short. That is the effect in the real world of these idiots, and yet you cling to them like glue.

Sir Stephen Lovegrove: I really do not think that we cling to Capita like glue. You gave the good example of the DIO, where we moved decisively away from them. I also think that the problems of recruiting in the Army cannot be laid wholly at the door of the recruiting system. There are much bigger things in society and—

Q59 **Mr Francois:** Yes, but the RAF and the Navy face the same challenges, and yet they manage—

Sir Stephen Lovegrove: But they have a different offer. There is no question, as I said before, that the RAF and the Navy used a different way of making that first contact with potential recruits, which the Army have recognised is a better way of doing it than the way that they used to do it.



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Mr Francois: My final point before I hand back to the Chairman, Sir Stephen: the emperor has no clothes. Everyone can see that this is a disaster. Just because a couple of very senior generals will be embarrassed doesn't mean that you have to run this out to 2022. We all know that it is a total basket case. Before we have infantry battalions with one company left in them, for God's sake, do something about it. My final word.

Q60 **Chair:** Are you being prevented by people in uniform from disposing of this contract?

Sir Stephen Lovegrove: Absolutely not. I can give the Committee the firmest possible reassurance that neither I nor any of my colleagues will be dissuaded from making the right decisions by virtue of the amour-propre of senior military officers.

Q61 **Chair:** You mentioned the distinction between the back office and the front office, when you talked about the interaction between recruits and uniformed members of the Armed Forces recruiting them. I can only speak from my very limited experience when I joined the Royal Naval Reserve in 1978 that to me, if there had not been a recruiting office on the high street, I would probably never have done it. I suspect that when Mr Francois joined the TA, I believe—in what year?

Mr Francois: In the last century, Chair.

Chair: But not as long ago as me—

Mr Francois: I joined at university.

Chair: Okay, in that case that was the way in, but again you were interacting with uniformed personnel in doing that.

Mr Francois: Yes, sir.

Chair: But what about the back-office side of things? How can it be that in making a presentation on defence to a group of retired officers a few days ago, I was told by one that his grandson is keen to join the Army, and he has been told that he will have to wait until next September before he can go to Sandhurst? His life is on hold for 11 months because the system is too inflexible to seize recruits with both hands and say, "Welcome. Come on board straightaway." Have you any observations to make on either of those two things, the first one being of the rather obvious nature that if you want to get young or youngish people interested, you want them to be interacting with people who look like what they wish to become?

Sir Stephen Lovegrove: As I say, the Army is very open to the realisation that they got that part of it wrong. I think what they would say in their defence, although it would only be a partial defence, is that it was a time when there was intense activity in south-east Asia, and they needed to get as many soldiers on to the front line as they could. They took the view that they could do some of the recruiting without that



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interaction of somebody in uniform. It did not work, and they are going back decisively to the former, rather obvious approach that you outline.

- Q62 **Chair:** So there is no question that service recruitment offices are going to continue from now on, then, in those other services. There is no question of the Army not bringing them back.

Sir Stephen Lovegrove: I do not know about the offices. I do know, when we are talking about the first interaction with the system that a potential recruit will have, it will be much more generated and channelled through serving military personnel. It will not be with a—

- Q63 **Mr Francois:** Why do you need Capita, then?

Sir Stephen Lovegrove: Because there is a back-office processing exercise that they provide to us. One of the problems that both Capita and the Army have been very clear about is that at the beginning of this contract, they both hugely underestimated the complexity of transforming that back-office system.

- Q64 **Chair:** And the 11-month wait for Sandhurst?

Sir Stephen Lovegrove: I am not in a position to answer questions about Sandhurst, because I simply do not know what the normal wait would be, or an 11-month wait in comparison with it. What I do know is that as a result of the initiatives that we have been putting in place for ordinary recruits in the past nine months or so, the transition time has come down from 200 days to 150 days. That is still too long, and certainly—

- Q65 **Chair:** Do you know what it used to be?

Sir Stephen Lovegrove: We accept that it is still too long.

Chair: But do we know what it used to be before this outsourcing?

Mr Francois: Nothing like that.

Sir Stephen Lovegrove: Ninety is a number I have in my mind, but I would have to get back to you on that.

- Q66 **Chair:** So it used to be about three months, and then we brought in this system and since then, it has skyrocketed.

Sir Stephen Lovegrove: Whether or not it was purely because of the system is open to question, but we are very conscious that that passage time has to come down a lot. It has come down a lot; we are working on making sure that it comes down further.

- Q67 **Mrs Moon:** We were told that, in terms of the problems with the Capita contract, it was 50:50; it was 50% problems within the Ministry of Defence and the Army, and 50% Capita's responsibility. Can we have an assurance that the 50% that was MoD mess-up is resolved? I have a military training college in my constituency. There is not a problem with young people wanting to join, let me tell you. The problem seems to be that back-office processing stuff, yet that is what stayed with Capita, so I



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remain worried about that.

Finally, Sir Stephen, can we have an assurance from you that if Capita's 50% and its back-office capability does not improve, the contract is one that we can get out of? I have actually seen the Ministry of Defence decide between two dreadful contracts and decide to get out of one because, although it was hard to get out of, it was easier than getting out of the other one. They have made disastrous decisions on the basis of which contract was the worst-written. So can you address the 50:50 issue, the back-office issue, and whether the contract is one that we can actually get out of?

Sir Stephen Lovegrove: On the, as it were, 50% that is the MoD/Army's fault, I can give you an assurance that we are completely seized of the mistakes that have been made in the past and are completely committed to trying to fix them. You will understand that even with the best will in the world, sometimes when we go into a remediation process, that doesn't go quite as well as we would like. This is a big, complicated contract. But we are working very, very, very hard, and successive Secretaries of State, successive Chiefs of Defence People and successive chiefs of the field army have all been very, very seized of that.

Q68 **Mrs Moon:** So where are we now? Are we at 40%, 30%—

Sir Stephen Lovegrove: I would say that, in terms of what we know we need to do, we are well over—it is 70% fixed, I think. But there is a long way to go until, for instance, we manage to get that time-of-flight number down from 150 to 90, if it is 90—I think it may be 90. That's still two months we have to shave off, so that will be hard work and will mean that we have to look at medical standards and whether medical tests are being performed quickly enough, whether the communications are quick enough and whether we are using social media quickly enough. It may well be that the last 10% is difficult to get; I don't know. We are still working hard at it, and it won't be fixed in a matter of months.

The question was asked: can we get out of the Capita contract? Yes, we can get out of the Capita contract. The decision has not been made as to whether we should get out of the contract, but can we? Yes, we can.

Q69 **Martin Docherty-Hughes:** Stephen, in response to Mark's original question, you said that the Royal Navy and the RAF have a different offer. Are you saying, therefore, it is a better offer than what the Army has?

Sir Stephen Lovegrove: I really do defer particularly to Air Marshal Knighton on this, but my conversations with serving officers and, indeed, serving men and women of all ranks have showed that people join the different services for different reasons. Often they join the Navy for, as it were, the lure of the sea. They join the Air Force because it is a highly technical service, with some of the most cutting-edge technology in the world available for people to be able to help develop. Indeed, Air Marshal Knighton himself is a very distinguished engineer. I think people may join the Army for different reasons. It is that, really, that I am referring to.



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- Q70 **Martin Docherty-Hughes:** I don't know whether the original question asked about the decline in female and black, Asian and minority ethnic recruitment. Would you like to add anything on that?

Sir Stephen Lovegrove: Again, it is an issue that is being addressed with the utmost seriousness at the highest levels of the Armed Forces. Indeed, there was a day-long exercise, which was chaired by the Chief of the Defence Staff and which I attended, just before the summer where that was one of the principal subjects of discussion. But it is moving at different paces in the different services. Again, I think the Air Force is probably doing rather better, particularly on recruiting women, than the Army is doing, and I think the Army is trying to address that, but it has different types of challenges.

- Q71 **Martin Docherty-Hughes:** Were any of the senior personnel at that meeting female or from a black, Asian and minority ethnic community?

Sir Stephen Lovegrove: There was no one from a black, Asian and minority ethnic community. There was a female officer there, yes.

- Q72 **Martin Docherty-Hughes:** One?

Sir Stephen Lovegrove: I think that's right, yes. It was before the summer, so I'm casting my mind back.

- Q73 **Martin Docherty-Hughes:** Given the profound issues faced by women and the BAME community in recruitment, that doesn't sound great. Even if you had told me that people were brought in to inform the debate and discussion with senior officers, to represent those under-represented groups, I would have welcomed that—you might be about to say it—but I'm getting the idea that, with all respect to the gentlemen in that room, it was a case of pale, male and stale.

Sir Stephen Lovegrove: Well—

Martin Docherty-Hughes: And white.

Sir Stephen Lovegrove: Yes, which I guess is the pale bit. This is a question that you really ought to address to the Chief of the Defence Staff and the chiefs of the individual single services, but I don't think that a single one of them would resile from a belief that the Armed Forces of this country need to more fully and accurately reflect the make-up of the population that they serve. They don't do that to anything like the requisite degree at the moment.

It is a more difficult question sometimes for the Armed Forces to be able to fix that kind of thing, because they are, in a phrase, bottom-fed organisations. It is not possible, for instance, for Cat to go in and become an air chief marshal because she doesn't have the experience or the qualifications to be able to do so. There is a question of people reaching the highest rank having gone through lower ranks before, and therefore it is a question of flow, just as much as it is a question of stock.



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The chiefs of the single services, who are by and large all fairly new, are deeply aware of this and are all completely committed to making a difference to it. Others may wish to make a comment on this.

Ms Little: I am the race champion for the Department and obviously a senior woman. Last year, for the first time, we set quite ambitious targets to start measuring and performance-managing the way in which we are going about recruiting women and people from BAME communities.

The way in which the Department holds the single services to account has significantly changed. For example, at the last meeting with the Army we went through in some detail what their plans were to improve. The fact that we are having conversations about detailed response plans and that they are being scrutinised at the top level, from a diverse community and a diverse group of leaders, is a real step in the right direction.

I spent the whole morning with the Chief of the Air Staff as part of our Black History Month celebrations, talking about how we really go after this issue. We are not going to be able to defend the country if we can't represent the communities that we seek to keep secure and safe. There are some real issues in translating the offer we have within the Armed Forces to make it relevant to young people from more diverse backgrounds.

We also heard from the Army engagement team, who are doing direct outreach work. They are doing great work in schools explaining what the Armed Forces do, getting people from more diverse backgrounds to go to talk and explaining how inclusive we are as an organisation. We've got to work 10 times harder than any other organisation because the odds are stacked against the minority protected characteristics that we are seeking to improve. It is not unusual for us to have largely male and white dominated bits of our organisation. We are working hard at it. The fact that we are performance monitoring is a real step in the right direction.

Q74 Martin Docherty-Hughes: May I ask one more brief question? I am glad to hear that. Would there be any future discussion on the relationship to class—the economic diversity of who you are recruiting and how they work up through the senior ranks? I represent a very undiverse constituency. Lord West may have went to school in Clydebanks but he never spent much time there. The relationship with class is also critically important in constituencies such as mine.

Sir Stephen Lovegrove: It is, and we are extremely interested in that area. We look upon the Armed Forces and the Ministry of Defence as a whole as being a real force for good in terms of social mobility. I was very pleased to see that we are now the 35th best employer in the country in the social mobility awards. That is a significant improvement over last year; I hope that we will continue to improve next year.

We look upon some of the Armed Forces as being a real engine for social mobility and we want to increase that profile. It might be useful to hear



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from Air Marshal Knighton, because he is the one who actually has a uniform.

Air Marshal Knighton: As an ex-comprehensive school kid, I would reinforce what the permanent secretary has said about the meritocracy that we pride ourselves on in the armed services. I have had many young men and women who have worked for me and been given opportunities by the armed services that have allowed them to develop in ways that, if they had stayed their community, they probably wouldn't have had.

To reinforce a couple of points that Cat and the permanent secretary made, because we are a base-rank-fed organisation, it takes a long time for us to deal with this. The old adage that you can only aspire to be what you can see is something that really resonates with us, and we recognise that the under-representation of women and black and Asian minority ethnic people in our senior positions in the Armed Forces is part of the problem. Exactly the kind of work that Cat has described is going on in the armed services.

In my career of more than 25 years, I have never known this subject to be seen as so important, and so much energy and effort being put into it, but it will take a long time for us to deliver. I hope that the meritocracy that is the essence of the armed services will help us through this challenge.

Mrs Moon: I have a number of questions. I have one to end on this, and then I will move on to—

Chair: I have to get Gavin in before you.

Q75 **Mrs Moon:** Sorry. In that case, I will just ask this one question. You must be aware that year after year for the Service Complaints Commissioner—honestly, this needs to come to you, Air Marshal, because you are the only one in uniform here—it is women and the BAME community who disproportionately are unhappy with service life. Disproportionately, it is about bullying and harassment. Are we getting on top of that? I have spent years on this Committee, and bullying, harassment and sexual assault have been the key issues that I have had to tackle as often the only female on the Committee.

Chair: Not any longer.

Mrs Moon: Not any longer, I appreciate that, but I have been at times in the past.

Is this is finally being grasped? It is less of an issue, I appreciate, in the RAF and the Navy, but it is slightly. It is much more an issue in the Army. Are we getting on top of that? This is about attitude as well as values, and it worries me that it is happening here. If we are sending personnel who feel that it is appropriate to abuse BAME colleagues and female colleagues then God knows what they are going to get up to if we deploy them overseas. Is this seriously being addressed?



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Air Marshal Knighton: I point to Air Chief Marshal Wigston's most recent report, which reinforces some of your points about the rising rate of some of these events. I also point to Air Chief Marshal Wigston's comments about some of the things that are already being done, and the redoubling of the efforts of the most senior people across the armed services to address what is reprehensible and unacceptable behaviour in the armed services. The position that is taken by the most senior people is unequivocal, but as you say it is about attitudes throughout the organisation. Some of it is unquestionably about leadership and setting the right example. Some of it is about structures and processes, so that people feel able to speak up, and those around them who see things that are unacceptable, to step in and challenge it.

I don't think the position we find ourselves in is acceptable. I think that is widely acknowledged across Defence. We must conclude from that that there is more to do. I hope that, if one of my two daughters decides to join the Army, the Navy or the Air Force, she will see an organisation that values people for what they are and for their backgrounds, and where they do not fear or feel any kind of resentment, criticism, bullying or harassment, but it is a constant effort for all of us in leadership positions, whether you are a corporal right the way to the Chief of the General Staff, to deal with these issues and to model the right kind of behaviours right the way through the organisation.

Chair: We really must move on now, because we have a lot to do. Some may have noticed that Madeleine is very bravely carrying on, albeit suffering from quite a nasty injury, and one or two other Members are time limited, so I am going to crack on a little bit more ruthlessly now. Gavin, please.

Q76 **Gavin Robinson:** Thank you, Chair, and apologies for being late. I had hoped that when I arrived you might be concluding, but given some of the answers I suspect my expectation and reality are quite far apart. Cat, could I return to some of the accounting questions that you have previously answered? Did you have to delay spending or make any unexpected cuts to stay within the non-ring-fenced budget last year?

Ms Little: The way in which we approached last year was that of course we received some additional funding from the Treasury, and it was incredibly tight: you will see from our out-turn position on our resource DEL, which is the limit for non-capital expenditure, that we were £22 million under our budget. The way we did that was partly through maximising money across the financial period, so we brought forward some priority programmes from this financial year into last and we deprioritised some activity into this year. That is quite normal; it is not easy to do in Government, because parliamentary controls work on an annual, short-term basis, as you know, but there was a small amount of saying, "Actually, we'll move some things into next year and fund them next year, and we'll accelerate and bring forward some things to live within our financial position."



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We try not to delay things artificially, for several reasons. First, obviously, we do not want to stop critical capability being delivered on time. Secondly, we want to give industry certainty. Thirdly, we do not think that it always offers good value for money, so we only do it if we think that there is a legitimate good-value-for-money reason.

Q77 Gavin Robinson: Are you able to itemise what those things were—those that were brought forward and those that were deprioritised?

Ms Little: To be frank, there were not any big things last year that we decisively chose to move. The way in which the Department's delegated system works is that once we set a revised budget for the Army, the Air Force, the Navy and our delivery agents, they may take some very local decisions to reprioritise. I cannot itemise the things that happen at that level of granularity—obviously it is a big, complex budget—but off the top of my head, there were no big things that we actively had to move, and that was because we were able to secure some additional funding.

Q78 Gavin Robinson: How did you get so close to the estimate figure for cash spending, given that the Treasury has reduced the MoD's budget by £2 million because of poor cash forecasting performance?

Ms Little: What I think you are referring to is the fine that we paid for our cash forecasting last year. I think the first thing to say is that we have been relentlessly focused on improving forecasting, but our cash forecasting in particular is not good enough. We were at the bottom of the league table last year across Government; this year, to date—

Q79 Gavin Robinson: But you were rather close to the estimated figure for cash spending, were you not?

Ms Little: With the cash resource departmental expenditure limit, we were £22 million under, but the way the Treasury monitors our cash forecasting is month on month. What it is trying to get us to do is maximise the cash available to the whole of Government. Every month I have to be able to land the amount of cash that I draw down from the Treasury with quite a lot of precision. Unfortunately, in our kind of business, sometimes we get payments that are material and that come in unexpectedly at the last minute, either to do with big contracts or with those that we had not anticipated paying in that particular month. That is how we have ended up at the bottom of the cash forecasting table. Our overall forecasting is actually quite good; for capital, we are in the top quartile for forecasting across Government, which I am obviously very pleased with.

Q80 Gavin Robinson: Moving from month-to-month to year-to-year or decade-to-decade, I have raised portfolio agreements on a number of occasions. There is one that spans a 10-year period, and there is aspiration for a number of others. Has there been any further thought about portfolio arrangements with suppliers that would allow you to profile more properly and take intrinsic savings over a longer period of time?



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Ms Little: Sir Simon might want to add to this, but the way in which our Government financial planning works means that it is quite difficult for us to get into those sorts of long-term portfolio arrangements.

Q81 **Gavin Robinson:** But you have already.

Ms Little: I am just trying to think of an example.

Q82 **Gavin Robinson:** MBDA?

Air Marshal Knighton: Are you referring to complex weapons with MBDA?

Ms Little: Right—the complex weapon pipeline. We do it where we are able to forecast with relative certainty what we need over a long term. We would like to do more of it, and there are some good examples of big, complex programmes where we think that it is right that we should do much more of it. But we have to do it with the explicit permission of Treasury, and some of the things where we think we would be able to benefit most are so valuable and cost so much money that we have not yet secured that level of approval from Treasury.

Q83 **Gavin Robinson:** Maybe I will pick that up on another occasion, specifically about another aspect that you are engaged in discussions on as a Department.

Air Marshal Knighton: May I offer just one other point, Mr Robinson, which is that part of the complex weapons portfolio and the plan was about ensuring that the UK had access to the right skills, as well as driving in over £1 billion-worth of savings through that long-term programme? It fell, in some respects, out of the thinking being done on the defence industrial strategy back in 2005-06. So it is a combination of factors that will lead us to make judgments about where we might need to intervene in order to sustain and support the kind of skills that we might need.

The FCAS—future combat air system—investment that was announced as part of the combat air strategy is also partly about trying to sustain those skills in industry, and we think of it in portfolio terms.

Q84 **Gavin Robinson:** Perhaps, if you have time, we could discuss that afterwards. Will the spending review 2019 that has been announced increase the level of defence spending as a percentage of GDP and, if so, by how much?

Ms Little: Government has not yet agreed to what extent there will be an SR or SDSR, for how long and over what time period. Just to build on what the permanent secretary said earlier, we would expect some sort of fiscal envelope to be set, and we would expect there to be some sort of discussion about how we would measure defence spending. Obviously, the 2% and whether it is 2% or higher is the sort of discussion we would expect to have as you enter an SDSR, but none of that has yet been agreed.

Q85 **Chair:** Sorry—I just want to clarify that. What we are talking about—what

was behind this question—is that the spending round that we have now—

Ms Little: Yes, apologies.

Chair: It's all right—don't worry. The spending round that we have now is just this £2.2 billion extra, although a lot of that was for pensions. And what we are looking at are the two sets of figures that we have. We have calculated as a Committee, doing the best that we can, that on the basis of the NATO rules, we are on 2.1% GDP, which we believe—on the basis that we used to calculate it—equates to 1.8%. And just to give you an idea, our rough calculation is that the £2.2 billion would just about take the 2.1% up to 2.2%, and the 1.8% up to 1.9%. We wonder whether you agree with that; it's not a trick question.

Ms Little: I did see your paper in July, which updated the 2% calculation—

Chair: That was before this announcement, of course.

Ms Little: Yes. So, broadly, yes, I agree with your calculations. We haven't done the old calculation; we only use the NATO definitions.

Chair: Well, I'm sure you do, because the old one takes us to below 2%.

Ms Little: The one that I focus on is Government policy on the 2% and it is the one that I am audited against. To be precise, it was 2.13%. Obviously, that assumes that the percentage of defence spending remains equal and that GDP remains equal.

The big thing for us now is, obviously, to get a revised forecast for GDP.

Q86 **Chair:** Yes, but like for like, assuming—?

Ms Little: Like for like, it is 2.13%. It broadly maintains the level of defence spending as a proportion of GDP—

Q87 **Chair:** So you don't think the £2.2 billion will take it up to 2.2%?

Ms Little: It's a very small increase. So, in real terms—

Q88 **Chair:** Because it's £2.2 billion over two years, isn't it?

Ms Little: Yes. That's correct.

Q89 **Chair:** So you think we are really still at 2.1% on that?

Ms Little: Yes, it's still around 2.13%, using the latest GDP forecast.

Chair: Thank you. That is helpful; that is clarity. Sorry to interrupt.

Ms Little: Apologies for misunderstanding.

Q90 **Gavin Robinson:** Not at all. Then, specifically, is the £300 million funding for priority capability programmes announced in the 2019 spending round part of the £340 million additional defence transformation fund budget that was announced in the MDP?



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Ms Little: The Secretary of State's transformation fund, which was announced earlier this year in January, related to this financial period— so the 2019-20 financial year. And the additional £1 billion relates to the 2020-21 financial year.

We are currently going through a budget planning process with the Secretary of State and Ministers, to agree to what extent the transformation fund continues and how we prioritise the £1 billion of additional spending. Of course, a lot of that will go on priority programmes that were already under way under SDSR15, and what we describe as the programme of record still needs to be delivered. But that planning process is currently under way.

Q91 **Gavin Robinson:** I suppose the question is whether the £300 million is new money, additional money, re-announced money or already profiled money?

Ms Little: For the transformation fund this year?

Q92 **Gavin Robinson:** The £300 million for priority capability programmes.

Ms Little: The £300 million that we have brought forward is to pay pound for pound for us accelerating programmes from next year into this financial period. It is definitely additional money, but it is to fund things and accelerate them into this financial period.

Air Marshal Knighton: This is stuff that we would have been spending in the following financial year—from 1 April next year. This additional money allows us to bring that expenditure forward, reducing the expenditure next year and accelerating the programmes, as Cat described.

Q93 **Gavin Robinson:** Reducing the expenditure—so the money is gone from next year? When you bring it forward, it is not replaced—it is just advanced?

Air Marshal Knighton: You bring the cost forward. It doesn't reduce the budget next year.

Q94 **Mrs Moon:** I would just like a clear picture of the efficiency targets that you have now set yourselves, the timescale and the savings you have made so far. I would just like to see how it is progressing.

Ms Little: We have been doing quite a lot of work since we were last in front of you. Our target over the next 10 years is £35 billion. That goes out to 2029. We have now got plans in place, with varying maturity levels, to deliver £25 billion of that target, so there is a shortfall of around £10 billion. The work that we have established is our transformation portfolio, which the permanent secretary referred to earlier, where we are looking at wholesale cross-cutting change to sustainably reduce our cost base, when it comes to logistics and support, our acquisition process people, and digital and IT spend. That work is currently being cohered so that when we have an SR, hopefully next year, we are able to put forward some further savings and some further investment that will be needed in delivering those savings.



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In terms of what we have delivered so far, since 2010, we have delivered about £10 billion of efficiency savings. We have had that recently assessed by an independent review. Of course, we invite the NAO in every year to look at our specific efficiencies on the equipment plan.

One of the things we are going to try to do next year in our annual report and accounts is to set out in a bit more simplicity how we are doing against savings targets on an annual basis. Having done all that work to rebaseline it, it will be easier for us to do so.

Sir Stephen Lovegrove: You make a very good point in the way in which you phrased the question, because the multiple overlapping efficiency programmes that have been announced, in 2010, 2013, 2015, have bedevilled the Department getting a clear sense of how we were doing against that, holistically. About 18 months ago, we spent a lot of time trying to clean this up and to get a sensible overall view. That £35 billion over 10 years is the best number to stick with, and that is what we are basically managing against now.

Q95 **Mrs Moon:** Do you have enough time to meet your targets by 2021?

Ms Little: The targets for 2021 from SDSR15 are currently on track, but it is fair to say that it is really challenging. One of the things we have learned is that, historically, the Department has gone after efficiency savings without investing in changing the way in which we do things. We have sort of just cut things.

Q96 **Mrs Moon:** Indeed; I was going to say, it is not efficiencies—it is cuts.

Ms Little: You are quite right. Part of the challenge has been us reading out what has been cut and what is genuine change and therefore genuinely doing more for less. One of the challenges we have is making sure that we have enough investment in transformation so that we genuinely change the systems through better technology and automation, making us easier to do business with so that efficiency savings can flow. It is still challenging to hit those targets—as I said, we have a shortfall—but one of the things we are trying to do in our budget planning for next year is to squeeze out some money to make sure we continue to invest in change. That is one of our big lessons learned.

Sir Stephen Lovegrove: Which is another reason why we are so keen on having another multi-year settlement. It is impossible to prove the benefits that will come as a result of spending money on a new system in year one. It just doesn't work like that; it takes three, four, five or six years. We need to look at the investment horizon in that kind of way, and an SDSR or an SR will hopefully allow us to do that much more effectively with colleagues at the Treasury.

Q97 **Mrs Moon:** Can I move on to service personnel? We have talked about the difficulty of recruiting, but only a third are said to be happy with the pay that they are receiving. Given the apparent buoyancy of employment, pay is a really live subject. How sustainable is that situation when pay is not really being tackled and keeping pace with what else is



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on offer?

Can you also confirm this? We gave a measly 0.9% one-off bonus. When what that finally made? Has it all been finally made?

Sir Stephen Lovegrove: We absolutely have been aware that pay is an issue. It is an issue in the civil service as well. The Government chose, after the last AFPRB report, which is all the ranks below one star—or is it one star and below?

Air Marshal Knighton: One star and below.

Sir Stephen Lovegrove: The Government chose to accept the 2.9% recommendation. For the lowest ranks, it effectively equated to a 6% increase, and it got everybody to £20,000. Across the board, that was £1,000². We are hopeful that some of the data that you are referring to will show that people are a little more comfortable with the pay that they are being offered. For more senior ranks, the SSRB recommended 2.2% for military officers. The Government ultimately ended up offering 2% to those more senior ranks. That is obviously less than the SSRB suggested, but it was more than was offered to civilian senior civil servants.

We are conscious of this as a factor in retention. We are conscious of lots of things as factors in retention—accommodation is another one.

Mrs Moon: Indeed.

Sir Stephen Lovegrove: These are all areas that we are trying to address as much as we possibly can. Clearly, there is again, even in this area, a balance of investment choices that we have to make. There is never a situation where we can do in any one area as we would ideally like.

Air Marshal Knighton: Might I add something? I have the Armed Forces continuous attitudes survey results in front of me. Between 2018 and 2019, the satisfaction with pay for officers and other ranks went up several percentage points. It is moving in the right direction, although it is still not high.

Q98 **Mrs Moon:** To what?

Air Marshal Knighton: The other ranks were at 32% and are now at 35%, and the officers have gone up to 51%³. There have been several single three or four percentage point increases both in the ranks and the officers post that award. That independent analysis indicates that there is some improvement, and that has been welcomed. It is still not back to the high of 2010.

Q99 **Mrs Moon:** I would be absolutely mortified if 30% of my staff said that

² Clarification: MoD subsequently clarified that this was £1,140 for over 7,200 newly trained sailors, soldiers and airmen and women.

³Clarification: MoD corrected the figures for other ranks as rising from 28% to 32%, and noting that the increase from 32% to 35% was the change for all personnel.



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they were happy. I wouldn't be happy if 50% said that they were happy. They are not exactly John Lewis satisfaction survey standards, are they?

Sir Stephen Lovegrove: There is a difference between whether they are happy and whether they are happy with their levels of pay.

Mrs Moon: This was a survey of satisfaction.

Air Marshal Knighton: It was specifically about pay.

Mrs Moon: But 30%, even going up to 35%, is still not good enough.

Sir Stephen Lovegrove: It is higher than in the civil service.

Mrs Moon: I appreciate that, but we are not asking you to go and die for us.

Sir Stephen Lovegrove: No, but I am just saying that there are lots of things that draw people to do their jobs over and above what they are paid.

Q100 **Mrs Moon:** But we also have to recognise the job that we are asking people to do: they don't get overtime; they often have to serve in extremely difficult situations; they often have to do all the antisocial things that the rest of us shy away from, including living in very difficult situations, particularly when they are in theatre. They deserve, at least with pay, higher levels.

Sir Stephen Lovegrove: That is why we are going for these awards, which we hope are seen to be generous.

Mrs Moon: I say that as a person who has not been in the reserves, but I recognise that that should be recognised in pay.

Ms Little: To answer your very specific question on the non-consolidated amount, it was paid in December 2018⁴.

Q101 **Mrs Moon:** Fully paid?

Ms Little: Yes.

Q102 **Martin Docherty-Hughes:** Have you made any progress with the Home Office in resolving the impact on foreign and Commonwealth military personnel of the minimum income threshold, and the high cost of visas and indefinite leave to remain?

Sir Stephen Lovegrove: I am afraid that I am not able to answer that question.

Air Marshal Knighton: I am afraid that I don't know.

⁴ Clarification: The non-consolidated elements of the 2018 pay award were split into two lump sums, one paid in November 2018 salaries and the second paid in March 2019 salaries.

Sir Stephen Lovegrove: We may have to come back to you on that.

Q103 **Martin Docherty-Hughes:** I take it, therefore, that you cannot answer how these issues affect your attempts to address the Armed Forces recruitment shortfall, if you are looking for soldiers from the Commonwealth and non-UK nationals.

Sir Stephen Lovegrove: They are certainly an important source of military personnel and we very much value their service, but on the specific point that you are asking we will have to take that away and write to you.

Q104 **Martin Docherty-Hughes:** I will ask you the final question on this. The former Minister for defence people and veterans told this Committee that he believed there is “a moral case” for getting rid of these fees. Does the Ministry of Defence continue to hold that view?

Sir Stephen Lovegrove: Again, I would be happy to answer that question when we return to you with a fuller answer.

Q105 **Martin Docherty-Hughes:** Okay. What has been the impact of the programme you planned to introduce in 2019-20 to address military skills gaps?

Air Marshal Knighton: I will take that one. What specific programme are you referring to?

Martin Docherty-Hughes: Around skills gaps and skills.

Air Marshal Knighton: From a military perspective or a civil servant perspective?

Martin Docherty-Hughes: From a military perspective.

Air Marshal Knighton: We track, across all three services, specific ranks and trades. There are specific skills requirements associated with those ranks and trades. We think about it in terms of where it could have or is having an impact on our ability to deploy people—the operational impact, which we call operational pinch points—or we talk about manning pinch points, which are where we have gaps around the armed services that cause us some challenges in filling gaps at particular points in time. The level of detail around each of those is quite granular and we have a whole series of bespoke programmes on specific skills to try to improve that situation.

For the most part, we see improvements forecast in that situation over several years, but it is worth pointing out that these are not straightforward things to fix quickly. The example I would use is that we have a shortage of avionics technicians in the REME at sergeant and up to warrant officer level.

Martin Docherty-Hughes: So they would already be in the services.

Air Marshal Knighton: We have to do two things. One is to try to keep those that we have—retention is a really important factor here—because



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retaining skills when you have paid for all the training costs and lived with all the history of that is the most cost-effective way of dealing with it. We want to retain that expertise and skill. In a number of specialist areas, we introduced financial retention incentives. But it is not just finance; there is a whole range of factors.

- Q106 **Martin Docherty-Hughes:** Can we take it slightly further back than, for instance, the sergeant or their equivalent in any of the other forces? Taking it right back to the basic young recruits coming through the door and the basic skills you look for them to have that might evolve further down the line, do you ever talk to the Department for Education about future pinch points and skills gaps in general, and how does that inform your recruitment processes for younger recruits?

Air Marshal Knighton: Yes, we do.

- Q107 **Martin Docherty-Hughes:** There are several Education Departments in the United Kingdom of Great Britain and Northern Ireland; I am not talking just about Whitehall.

Air Marshal Knighton: Okay, I take your point absolutely. As far as I am aware, our conversations on some of these specific problems occur with the Department for Education in Whitehall, but I know that in Scotland, for example, a lot of work is done with the Scottish Government on science, technology, engineering and maths skills. In a previous role, I was responsible for the planning and setting up of the RAF 100 programme. A key component of that was the STEM work, and we worked very closely with the Scottish Government to engage and involve ourselves with some of the excellent projects and programmes they are running in Scotland to try to ensure that we lifted the sights of society more generally. The spin-off benefit to the Armed Forces is that we have a larger pool of technically qualified and capable people from which we can draw.

- Q108 **Martin Docherty-Hughes:** What about Whitehall, Northern Ireland and Wales?

Air Marshal Knighton: I definitely know that we did it with Wales as well. I am afraid I cannot say, hand on heart, that it was done in Northern Ireland, but I know from experience that the quality of the education and technical skills available in Northern Ireland is a great attraction to us, and we have many very highly qualified recruits who have come from Northern Ireland. At a more senior level, taking a national view, the Chief of Defence People and teams who work for him have regular contact with the Department for Education, and we talk regularly, particularly about those STEM skills. It is not just that; we talk more generally about education standards, but those STEM skills are so important for us. As we look forward to a force that will be more technically competent and involve itself with higher levels of technology, that is going to be increasingly important to us.

- Q109 **Martin Docherty-Hughes:** Let's take the technology question next, then. Do you foresee the military's attempt to develop cyber skills reducing funds for conventional activities?

Air Marshal Knighton: That is absolutely not the intention at all.

Q110 **Martin Docherty-Hughes:** Maybe I come at this with a slight devil's advocate view. If you are looking at capability and at a changing environment in terms of what is necessary for effective Armed Forces, there is going to have to be some give between what is viewed as traditional delivery and what is more realistic delivery in an age in which cyber skills, as well as other modern technological advancements, are going to have an impact. There is going to have to be some give and take on that, surely.

Air Marshal Knighton: This is a debate that is—

Martin Docherty-Hughes: It is about capability.

Air Marshal Knighton: This debate is raging inside the Armed Forces at the moment. We recognise, with the increasing importance of space and cyber-space to future operations, and of our ability to code and programme our own software to deliver the agility we need, that there is a set of skills we are going to need to grow and develop in the armed services. Some of that will be about new people coming into the organisation with those skills or people being trained while they are part of the armed services—or, potentially, through a different relationship with industry, civilians and reserves.

One of the opportunities that technology offers is for us to take people out of some of the work they do currently. Robotic process automation is widely used across the private sector, and there are opportunities, as we look forward to the future operating environment, for us to apply that technology to reduce our reliance on people. That is one of the ways in which we would—

Q111 **Martin Docherty-Hughes:** On which service do you see automation having the biggest impact?

Air Marshal Knighton: You could see it having an impact across all the services. I will give you a particular example. If we can collect the data effectively and apply sensible algorithms to that around the maintenance of our platforms, we can potentially improve the reliability of those platforms and reduce the time spent in maintenance, thus reducing the maintenance burden and the number of people we need actually to hold spanners and screwdrivers to maintain ships, planes and vehicles. So the opportunity there is quite considerable.

There is a lot of work to be done to realise those benefits, and one of the points that I often make inside the Department is that the force structure we have today and those things that we are acquiring through the equipment programme will be in service for many decades to come. Aircraft carriers are a great example—they will still be in service into the 2060s. We must expect to have to continue to use that equipment, and to use it in the way it was designed, but trying to evolve it over time to improve its reliability and potentially to reduce the burden it has in terms of maintainability.



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Q112 **Martin Docherty-Hughes:** But that would be reducing the numbers of people.

Air Marshal Knighton: You reduce the requirement for the number of people to do those tasks but, as you rightly point out, there will be new tasks that we need to do, and that is how we might create some of that headroom.

Q113 **Martin Docherty-Hughes:** I needed you to make that link so that people do not get the idea that you are going down the automated, "Let's get rid of folk altogether"—

Air Marshal Knighton: Thank you very much. We definitely won't—

Sir Stephen Lovegrove: One of the things that we are wrestling with at the moment is specifically how we can recruit the right kind of personnel to do cyber, given that they will be required in a variety of different circumstances to do things that have military effect, but they may not—they may, but they may not necessarily—come out of the traditional uniformed staff. That raises some quite complicated issues for how we recruit, train and employ, and what the kind of standards are—there is a lot. This is an evolving picture, and I think it is probably evolving much more quickly than it was deemed to be in 2015. The pace of this kind of stuff is increasing.

Martin Docherty-Hughes: We just need to look at Estonia. Anyway, thank you.

Sir Stephen Lovegrove: We just need to look at Estonia—quite.

Q114 **Chair:** America has found in some cases that people who have the technical skills to do this sort of work, particularly in the intelligence field, don't necessarily have the attitude of mind congenial to this sort of work.

Sir Stephen Lovegrove: Indeed. We have talked a little bit about diversity earlier on, and an aspect of this, particularly in this area, is neurological diversity—

Q115 **Chair:** What do you mean by that?

Sir Stephen Lovegrove: There may be people who are particularly good at coding who have neurologically diverse characteristics, so they may have certain behavioural traits that would not normally mean that they were obvious candidates for the Armed Forces, but they might be extremely effective in this kind of role. We also have to take a view on vetting.

Chair: Indeed.

Martin Docherty-Hughes: If you don't employ them, Google will.

Sir Stephen Lovegrove: Quite. We know that we need, in any number of different ways, to have a much more richly diverse workforce for the future, not only for representational purposes but for simple questions of whether or not we will be as effective as we need to be.



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Martin Docherty-Hughes: It is important to mention that if the Ministry is not employing them—this is not an observation but a reality—Google and other major platforms are doing so. They are employing them, and they are just as rigorous about making sure that people don't know what is goes on in their buildings as anybody else these days. There is a bit of learning to be done there.

Q116 **Chair:** We have about half an hour and just eight topics to go, so you can do the maths. I want to make a couple of quick points on Martin's questions. The point about cyber skills versus conventional activities obviously harks back to the quite robust exchange that you and I had right at the beginning, Stephen, so may we just get this firmly established? While we accept that there are a whole new raft of threats that we have to face in the 21st century as a result of these new dimensions, most notably cyber-space, we do agree, don't we, that these are threats that are additional to the traditional hard-power threats for which we have to supply Armed Forces and conventional capabilities, and they are not substitutes for them?

Sir Stephen Lovegrove: We are absolutely with you that there is not going to be any substitute for having hard kinetic power of the type that we have and will always require.

Q117 **Chair:** We are completely at one on that. To go back to the programme about addressing military skills gaps, Richard, the reason that that question was in there was that in your report on page 75, you actually refer to "further work to address skills gaps", which was "a key consideration...of the Modernising Defence Programme." It said, "a programme initiation exercise has been carried out. It aims to bring together execution of this plan and the Enterprise Approach Project into a single and coherent programme of activity. This is in response to the NAO and Public Accounts Committee reports of April 2018 and September 2018 respectively." That is why we are interested to know what progress you had made in that respect.

Air Marshal Knighton: That is the programme that the Chief of Defence People runs. The enterprise approach was about working through how we can sustain the skills that the defence sector needs, both inside and outside the Armed Forces, by changing the relationship with the private sector—the commercial sector—and the whole force, so civilians and reserves. General Nugee has brought that programme together. It is not a programme that I imagine will stop in my time of service; that is something that we need to continue working at to make sure that we continue to develop the skills we need.

Chair: Thank you. Gavin, Martin and I will now try to exert iron discipline to crack through these last questions in about half an hour.

Q118 **Gavin Robinson:** Richard, I want to draw on the remarks that you made to Martin about involvement with devolved bodies, particularly in education. I thank you for your candour in saying that you are unaware of what engagement has taken place with the Department of Education,



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but sadly my experience suggests that that is not a surprise and that we do not feature as highly as we ought to—not just Northern Ireland, but other devolved Administrations. If you are going to encourage people of younger generations and through schools, whether or not our education system is good, as you suggest, misses the point. When you divest the only RAF facility that is there to encourage people and give them the aspiration for a future in the RAF, that does not help. I just want to make that point, but I thank you for your honesty.

Air Marshal Knighton: May I just ask which particular institution you are talking about?

Q119 **Gavin Robinson:** The Air Training Corps had a facility at the Newtownards airfield that allowed them to take light craft up. That was part of the defence estate rationalisation two years ago, which I think is a great shame, given that we do not have an Air Training Corps in any of our universities or a university naval unit at all in Northern Ireland. Given Belfast's maritime history, that is extraordinary. There is no way in which the three services can expect to encourage people to engage in the Armed Forces in future if you do not invest in them at an early stage. I am just making that point; it is not for you to respond. I thank you for your honesty about not knowing whether engagement took place with the Department of Education in Northern Ireland, in particular.

Cat, I will address this question to you primarily because you engaged with Mrs Moon about the inability to realise savings, efficiencies and cuts because there is a failure to actually do what is required and to change. This question is about civilian staff numbers particularly. The target has dropped and you will not achieve the target of saving £310 million from civilian staff costs by 2020. Why?

Ms Little: I am sure that the permanent secretary will want to add to this, but we think that it is more important that we are optimising the right skills to deliver the programme of work that we have got in Defence. That is about making sure that we have the optimal mix of skills and people, both in our full-time civil service cadre and between contractors, contingent labour and the use of consultants. To be frank, we think that the quite artificial and unsophisticated way of putting in place a head-count cut could actually lead to us eroding vital skills that we need within the civilian workforce.

Q120 **Gavin Robinson:** You are not going to hit the target or reach the savings. At what point have you publicly said that the target and the anticipated savings were wrong and that you didn't need them for business requirements?

Ms Little: The savings are now part of the overall transformation programme. What we are saying is that we do not intend to deliver that savings target through a blunt reduction to the workforce. But we still need to make those savings. It's part of the £35 billion and the £10 billion shortfall that I took Mrs Moon through earlier.



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Sir Stephen Lovegrove: In terms of where we have talked about this, we did actually talk about it in the Modernising Defence programme document. At the end of one of the sections, there was a brief discussion. The then Ministers thought about the artificiality of that 30% headcount target in particular—there was an explicit expression not disavowing it, but moving away from it as the way in which we were thinking about this particular area. So we have been completely straightforward about this.

Q121 **Gavin Robinson:** So in 2012, when the NAO said that there were civilian skill shortages in five business-critical areas, were they wrong?

Sir Stephen Lovegrove: No, they would not have been wrong. It's one of the—

Q122 **Gavin Robinson:** And it's right to say that there still are?

Sir Stephen Lovegrove: You would have to remind me which ones—I can probably guess, actually. No doubt they are finance, project management, IT—

Gavin Robinson: Keep going.

Sir Stephen Lovegrove: Commercial—

Q123 **Gavin Robinson:** We are keen to know that, having been aware of those skill shortages since 2012—

Sir Stephen Lovegrove: We have done a lot of work. We have done a lot of work in all those areas. We have rolled out a completely different functional model, particularly in those areas. I will let Ms Little talk a bit about the finance and commercial ones, which is what she is responsible for. But across all those job families, we have recognised where the critical skills gaps are and have extensive programmes to recruit, to train and sometimes merely to familiarise employees and colleagues who don't have to have those skills at their fingertips all day long, but need to at least know what they don't know, as it were.

Q124 **Gavin Robinson:** If there is a recognised skills deficit still, albeit good work is going on, is that part of the reason that we have such a struggle when it comes to performance and contract management?

Ms Little: It is probably worth my saying a bit about what we are doing about this. Those five skills gaps are not specific to Defence. They are actually common to the civil service; many Departments are struggling with recruiting and retaining from those professional skill sets.

For the finance and commercial function, perhaps I can focus on your questions on commercial. We have just over 2,000 commercial professionals. One of the big areas of our commercial functional plan is to improve the quality of the training and the professional skill sets that the people in that function have.

Q125 **Gavin Robinson:** Sorry, what do you mean by a commercial skill? Are you talking about somebody who is a member of a regulated body?

Ms Little: Yes. One of our big targets is for all our licensed staff—the people who have the licence to make commercial deals within the organisation. By the end of next year, we are committed to having them all CIPS-qualified—that’s the procurement institute—and to making sure that they have also passed the Government Commercial Organisation licence to operate for their chosen field.

Obviously, in the commercial function, you have a range of skill sets. You have people who are contract managers, people who are specialists in deals and negotiations, and folk who are specialists in the supply chain. There are tailored programmes across Government, through the Government Commercial Organisation, delivering that service.

The other thing, which we are working on with the Cabinet Office, is contract management training. We have three tiers of contract management training, whereby we are putting everybody who is responsible for a contract through very specific licence-to-operate contract management training. Again, our intention is, by the end of next year, to ensure that all contract managers have that licence to operate.

So the plans are in place. Targets are well advanced: 90% of our commercial staff are now CIPS-qualified or have done their licence, across Government⁵. We still have a year to go and 10% of the workforce to complete.

Q126 **Martin Docherty-Hughes:** Does having a 25-year plan to rationalise the defence estate give any sense of urgency for making difficult decisions now?

Air Marshal Knighton: Would you like me to pick that up? I will address it from a couple of angles. The reason for setting it out over 25 years is because of the complexity and time it takes to move units and consolidate them in single locations. I always think of it a little like the Chinese puzzles in that you have to have created some space—rattle room. You then have to upgrade the infrastructure there to allow the movement of the next unit before you can close another unit, which can then release that land for housing. So, by setting it out over 25 years, we are able to take that longer-term view, to be clear about the broader objectives.

On your question about whether that stops us making decisions around the more urgent, I would say that it allows us to frame urgent decisions in the context of our longer-term plans. When you set out something that takes 25 years, there is always a danger that the assumptions on which you based that plan get adjusted along the way, but I think it is definitely better for us more generally to have that long-term plan and that, where there are urgent requirements, we deal with those on a case-by-case basis.

⁵ Clarification: Targets are well advanced: 90% of our commercial staff are now either CIPS-qualified or have been enrolled into a training/assessment programme that will enable them to meet this standard.

Q127 Martin Docherty-Hughes: Does that include substandard housing accommodation?

Air Marshal Knighton: In what way do you mean?

Q128 Martin Docherty-Hughes: You are creating that within the 25-year plan.

Air Marshal Knighton: If you are talking specifically around accommodation—

Chair: We are just about to come on to that, so let's not go too far on it.

Air Marshal Knighton: If you are talking about families' accommodation, 97% of our housing stock is now at the decent homes standard. We have invested a considerable amount—£116 million last year—in upgrading those standards, and we have worked incredibly hard to make sure that our people get the best standard they can within the limitations of the budget, the timetable and where they have to work and operate.

Q129 Martin Docherty-Hughes: In terms of the 25-year plan, how confident are you that you can meet your target of releasing enough land for 55,000 homes by 2020?

Air Marshal Knighton: We definitely won't achieve it by 2020.

Q130 Martin Docherty-Hughes: When will you achieve it?

Air Marshal Knighton: We think by 2040 we should be able to achieve that target of 55,000 homes. It is what we describe as "housing use potential"—land that is released in the right place that enables you to go and build houses on it.

Q131 Martin Docherty-Hughes: When did you come to that conclusion?

Air Marshal Knighton: In 2015, the challenge associated with releasing land for 55,000 homes was well understood as massive. As we have got into the programme of the better defence estate strategy and starting to deliver the defence estate optimisation programme, you come up against requirements for local authority approvals and all the complexities associated with delivering this. That is how we have seen our ability to hit that target in 2020 decline. We keep that under constant review.

Q132 Martin Docherty-Hughes: How quickly did you know that was going to be the situation?

Air Marshal Knighton: We knew in 2015 when we were given the target that it was going to be extremely demanding. I remember at the time the permanent secretary remarked how demanding it would be. But as good officials we worked to see what we could do to deliver as close as we could to that target. It is over the last few years that it has become increasingly apparent that we were just not going to deliver—

Sir Stephen Lovegrove: I am just thinking now. I think probably in the last year we have had conversations with MHCLG, who are of course in charge of the global target of I think 180,000, of which we are 55,000, to say that we are not going to make it.

Q133 Gavin Robinson: Is this an English target? MHCLG has no scope outside England.

Sir Stephen Lovegrove: I believe it is an English target; I would have to check. I do know that MHCLG have had similar conversations with some of the other big landowning Departments like Health and Social Care, and Transport. Equally, they have found that some of the assumptions they might have made about how easy it is to get some of these decisions, particularly in local councils—

Q134 Martin Docherty-Hughes: I can fully understand the complexity in trying to do this in such a quick timeframe, having been in local government prior to Parliament. My final question—I know we are short on time—is, who was the Minister who came up with this?

Sir Stephen Lovegrove: I think 2015 was the time of the target, so I think that—

Air Marshal Knighton: It was part of the spending review—there was a comprehensive spending review that started in 2015.

Q135 Martin Docherty-Hughes: So this was a political direction to take that decision?

Air Marshal Knighton: I think it was a matter of Government policy to try to release Government land in order to increase the availability of housing.

Martin Docherty-Hughes: A quick buck. Okay, that's fine. Thank you.

Q136 Gavin Robinson: Thank you for that answer, Richard. COBSEO told us that the central problem with service accommodation was the lack of funding, and that delegating the financial decision-making process to service chiefs was just rearranging the deck chairs. Do you agree with that?

Air Marshal Knighton: No, absolutely not. I believe that the delegation of the budget and the responsibility for making the difficult priority choices to the commands—those who have the most vested interest in the morale and welfare of their people and in their retention of their people—is the right thing to do. We have already seen that the commands have been willing to reprioritise their investment plans to invest more in infrastructure to deal with issues associated with it.

Q137 Gavin Robinson: COBSEO's point is that it is not about—

Air Marshal Knighton: Sorry, whose point?

Gavin Robinson: COBSEO.

Chair: The organisation that brings together and co-ordinates all the service charities.

Air Marshal Knighton: I have not come across them before. Sorry. Or maybe I am mishearing it.



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Q138 **Chair:** It is the umbrella organisation that speaks on behalf of the whole service charities sector.

Air Marshal Knighton: So you are talking about the families federations and the service charities?

Q139 **Gavin Robinson:** They say it is not about who makes the decision; it is the fact that there is not enough money. Is there additional money available to this service, and who is making these decisions? You talk about reprioritisation, but is there an increased budget available to them?

Air Marshal Knighton: If we go back to some of the conversations we had earlier, there is additional funding that has gone into Defence to ease some of the challenges that we have identified. How we prioritise and spend that is a complex process, but we have said that investment in infrastructure is a particular priority within that. The chiefs have specifically said—I point to the Chief of the Air Staff as an example. He recognises the importance that infrastructure plays in the retention of people, and he has therefore used some of his funding to ensure that he can invest in the infrastructure in a way that raises the standards.

Q140 **Gavin Robinson:** So it is accepted that poor accommodation has a material impact on recruitment and retention?

Air Marshal Knighton: As commanders, it is one of those things that you understand is a factor. We know from our continuous attitude surveys that opinions about infrastructure are a factor in the way people think about their life and service. There is clearly a degree of correlation, and it seems right to us that we should invest in the infrastructure to ensure that it is of a standard that meets the requirements both at work and as personal accommodation.

Q141 **Gavin Robinson:** In response to Martin's questions, you referred to investment in family accommodation. What steps have been taken to address the shortcomings identified by the Defence Fire Safety Regulator's report on single-living accommodation?

Air Marshal Knighton: As far as I understand, we have taken all the steps that have been recommended, and there is a continuous programme of improvement around any fire safety issues. As I understand it, there are no improvement notices outstanding.

Sir Stephen Lovegrove: That is true in that particular instance. A variety of things were raised in the Department. We felt that there was a gap in the head office part of the Ministry of Defence on oversight of all aspects of safety and safety policy. Partly as a result, we have now moved to rectify that. We now have a central committee on safety, which is chaired by me, and we have appointed a two-star officer as director of safety. So I am hopeful that those kinds of thing will be less prevalent than they have been.

Q142 **Gavin Robinson:** I don't mind who answers this; maybe Sir Stephen, if you are the chief when it comes to this. Having indicated that all the improvement notices have been worked on—

Sir Stephen Lovegrove: Not all of them. The one that is on me particularly has not been lifted.

Q143 **Gavin Robinson:** Yes, but on single-living accommodation.

Sir Stephen Lovegrove: On single-living accommodation, I don't believe that there is one.

Q144 **Gavin Robinson:** Have you asked the Defence Fire Safety Regulator to come in and assess the work done?

Sir Stephen Lovegrove: They will have been involved right the way through the exercise.

Q145 **Gavin Robinson:** Have they concluded that work? Have they, having issued shortcomings, stepped back and said, "Well, having worked with you and walked this process with you, we are now satisfied that you have adequately responded to these improvement notices"?

Sir Stephen Lovegrove: My understanding is that as a result of that particular issue the fire authorities in Defence have said, "Yes, we are comfortable with the mitigations." They are constantly doing their work and I am very happy if you would like me to write back and say where they are up to in the process that is ongoing. I should say that there is still an improvement notice on me personally—

Gavin Robinson: We will pass no judgment on that.

Sir Stephen Lovegrove: To improve the governance and oversight of safety within head office, which I take very seriously and hope will pass in due course; but it has not been lifted yet.

Gavin Robinson: Okay; well, if you could formally write to the Committee that would be very useful.

Q146 **Chair:** We are doing quite well. We have got just three topics left, but they are all highly specific. I do not expect that we are going to resolve them here, but they are ones that matter a lot to this Committee.

The first is the war widows' pension issue, which I am sure you are familiar with, and I give you fair notice we will be raising it in the strongest possible terms with the Defence Secretary next week. The issue is, as you know, that the law was changed by the David Cameron coalition Government so that, on remarriage or cohabitation, no longer would war widows lose their pension which had been awarded after their bereavement and in recognition of their sacrifice.

The problem that remains is that something like 260 or so were not covered by this, in respect of the fact that their war widows' pensions, which are largely symbolic—I believe it is about £7,000 a year, something of that sort—have not been automatically restored to them. However, were they to divorce their second husbands, as it usually is, the pension would be restored to them, and were they then to cohabit with or remarry—including remarrying the second husband they had just divorced—it would not be taken away from them.



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We know that this is a problem primarily with the Treasury making difficulties about precedents, and so on, although we understand that a similar problem—I am looking at you, Gavin, here—was resolved in respect of police widows in Northern Ireland. We believe that this is a monstrous and disgraceful state of affairs and we expect Defence Ministers to grip it and to simply announce that these pensions will be restored. We are not going to let go of this till it happens. Cat, you are looking as if you know all about this.

Gavin Robinson: You are right to say that the Department of Finance and Personnel at the time in Northern Ireland resolved it for widows of the Royal Ulster Constabulary, but there is an immoral imperative where you have two individuals who served alongside one another and if they were killed together—one RUC and one UDR—the wife of the RUC has had it restored and the wife of the UDR has not.

Chair: This cannot be allowed to continue. It is one of those things where, frankly, you are going to lose on it if you resist it, so why not make a virtue of necessity and get these pensions restored, and argue about it with the Treasury afterwards?

Ms Little: The very simple answer is that the Department is very sympathetic to the issues and the Secretary of State has asked for some urgent advice on this issue.

Q147 **Chair:** Not from the Treasury, I hope.

Ms Little: No, from the policy functions within the Department. Of course, we are very mindful of the fact that Treasury's view is that there could be precedent, and we are also aware of the other, historical cases that have been settled. So the simple answer is, sympathetic, and urgent advice is being pulled together.

Q148 **Chair:** Can I just suggest something? It is rare that I recommend people to read any speech that I have ever made in the past, but I did seek, and quoted from, four letters from these widows in a speech on 22 November 2018, and I defy anybody to read those four letters without being deeply moved by what those brave ladies said, including one who felt it sufficiently necessary to join the Armed Forces herself, seven years after her husband had been killed in action.

The next one is the tenders for the fleet solid support ships, which, as you know, is something that we feel strongly should not have to be put out to foreign tender given the advantages to British shipyards and, in particular, the way it would help to keep a flow of work going through places like Rosyth in between carrier refits, for example. The specific question is, have you considered reclassifying fleet solid support ships as warships given that some of our allies do exactly that? Then you could restart the tender. Would there be any particularly unbearable costs associated with this?

Sir Simon Bollom: There are two parts to the question. One is the ongoing fleet solid support competition, and then there is the forward



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policy. With regard to fleet solid support, as you know we put that out to tender. We put it out to five interested parties. The bids have been received, just at the end of last month, and we are going through those right now. I hope you will understand that I can't really comment on those particular bids, or any of the specifics. As we come towards the end of the year, we will come to a judgment on that.

Q149 Chair: Are you obligated to accept the lowest bid, or can you take into account both the prosperity agenda and the implications for us having a coherent shipbuilding strategy that will enable us to keep our shipbuilding footprint in being over the medium to long term, so that it is available when we need to do other things with other warships?

Sir Simon Bollom: On that specific, I cannot really go into the criteria; we discussed those at the last session, but essentially there is a value-for-money judgment. It does not just take the lowest bidder. We are going to be looking for technical compliance. We are going to be looking at a whole ream of qualifying elements within each tender. A broad assessment is carried out.

Q150 Chair: Do the elements that I have just said—the prosperity agenda and the strategic shape, continuation and size of the shipbuilding footprint—count in what you consider?

Sir Simon Bollom: Certainly the strategic shape of the shipbuilding enterprise—I am not sure how we would actually be able to do an assessment around that. We have not set those criteria out.

Q151 Chair: If you knew that, for example, in the case of the Rosyth shipyard, it could make a decisive difference to whether that shipyard is still viable in, say, 10 or 15 years when we might need it to refurbish HMS Queen Elizabeth the aircraft carrier, that would surely be a relevant consideration on whether we were able to give it the work that would keep it going by having one or more of these big fleet solid support ships being built there.

Ms Little: I am the chair of the investment approval committee, which oversees the way in which we make decisions, and it is entirely legitimate for us to bring into our consideration both prosperity and the operational and practical implications for the shipbuilding industry. When we talk about value for money it is not just about lowest cost; it is obviously about making sure that we are doing the right thing to deliver a capability within the budget envelope that we have, and maximising the amount of money that we have available.

Q152 Chair: So we are able to take those things into consideration.

Ms Little: We are able to. One of the challenges that we have is being able to reliably quantify some of the economic impacts. I think Philip Dunne quite rightly pointed out some of the things that the Department has to do in order to better quantify the impact economically on prosperity, so that we can take it into account more fully.

Q153 Chair: We have the main thrust of it, but just coming back to the



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question, have we considered reclassifying these ships as warships given that some of our allies have done precisely that, and would it cost us a great deal of money to restart the tender if we were to reclassify them in that way?

Air Marshal Knighton: Shall I pick that up? If I may, Chair, I will talk about Rosyth in a moment as well, because I am aware of your interest in that.

Chair: Yes; you have about six minutes.

Air Marshal Knighton: The competition is running, and it was established on the basis of the classification of the fleet solid support ships not being a warship. We will not change that classification while this competition is running.

Q154 **Chair:** Might you change it in the future?

Air Marshal Knighton: That would be a matter for Ministers to decide in the future, alongside all other policy matters.

Just on your point about Rosyth, it is worth making the point that the preferred bidder for Type 31 intends to build those ships in Rosyth. That would overlap with a period where fleet solid support is due to be acquired, and so actually the security around the future of Rosyth is set for at least a decade, really, as part of that Type 31 programme. We know that there are future requirements in the maritime sector for surface ships—for example, Type 45 will need replacing as well—so we will consider all of those factors when we approach the programme for the future shipbuilding requirements for the UK and for the Royal Navy.

Chair: You all seem pretty much unanimous that it does not just go to the lowest-cost estimate for short-term savings, and naturally we would approve of that.

Q155 **Gavin Robinson:** Is it right to say that there has been a change in that approach? I have to say that in the exchanges we have had, Sir Simon, that is not what has been said. We have gone through scoring metrics; we have asked you clearly about whether there is an appreciation for national spend, tax receipts and wider implications, and your answer was always no, so has there been a change?

Sir Simon Bollom: No—

Q156 **Gavin Robinson:** Or are you talking in the round, that these are things that can feature but actually don't?

Sir Simon Bollom: If I may, I have to make it clear that the important thing—whether you agree with it or not—in doing an international competition is that there has to be a level playing field for all of the bidders. When we are looking at the strategic laying down of the footprint for whatever solution we choose, we have to do that as a second-order consequence, but it is really important, and I just want to state that where we have issued a set of criteria to all of the bidders, we will stick by that. I



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think the reference that Cat was making here is that when we sit down and look at that evaluation on the investment approvals committee, clearly we can take a number of factors into account.

Ms Little: We are talking about two things here. One is the very commercial assessment process that the DE&S, or any other delivery agent, will undertake on our behalf. At that point, there are very strict procedures that Sir Simon and his team will follow, but the investment approval committee and the Green Book for investment decision making in Government absolutely allow us to take those things into consideration. The issue, quite often, is that we are not able to reliably quantify economically the impact that some of these decisions are having, so it is my responsibility to make sure that we have enough high-quality evidence. In the absence, of course we can take it into consideration, but we do have to moderate depending on the quality of the data we have.

Gavin Robinson: One for revisiting on another occasion, I think.

Q157 **Chair:** We will have to leave it at that because we have one more, and that is the question of the serious shortcomings of the military flying training system identified by the NAO, and also by quite a memorable "File on 4" Radio 4 investigation not so long ago.

Where are we on this ridiculous situation whereby that minority of highly skilled potential pilots who are identified as being fit, particularly, to fly the most sophisticated and complex aircraft in the world are being held for periods of years in a holding pattern—possibly to the age of something like their late 20s—before they get to do that? I need hardly remind you, I think, about the average age of pilots in the first and second world wars, where by their mid to late 20s they were regarded as positively antiquated. What on earth is going on? Is it, once again, something to do with the fact that that work is being contracted out to private sector partners instead of remaining in-house?

Air Marshal Knighton: I will start, and Sir Simon might want to add some comments. It is worth us stepping back a little bit through time to understand why we are where we are in the way that you describe it, Chair. In 2010, there was a major reduction in the size of the Armed Forces, which led to a reduction in the requirement for pilots. At the stage that the military flying training system programme was at, it was early enough in the process for it to be resized to match the future requirements set out in 2010.

At that time, I do not think any of us—I was not in the Department then, but I was obviously in the Air Force—foresaw the increase in pilot requirement that came in the 2015 SDSR, which saw significant increases in the number of pilots required, particularly for multi-engines. We brought in P-8s, we ran on C-130 longer than was originally intended from the 2010 review, we increased the number of combat air squadrons and we significantly increased the requirement for unmanned air systems operators. That decision was taken in 2015, which massively increased the demand over quite a short period.



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On top of that, the period from 2015 to now has been a period where we have completely recapitalised and replaced all the flying training aircraft with brand new aircraft. So you bring a transition programme to a new exciting modern fleet—with some risk, and I will talk about the poor performance—right at the point at which you are also trying to significantly increase the throughput.

The Air Force decided in that time, around 2015, to maintain the recruitment of pilots to have that group of pilots to push through the flying training system to meet that new long-term requirement for the frontline. What has happened in the intervening period is that we have worked with Ascent and internally within the MoD and the Air Force to grow the capacity, but that takes time to develop. With the introduction of new aircraft into service, there have been teething problems with that that have caused further delays.

The position that we are in today is that all the infrastructure is now basically complete. The last component of the flying training system is the basic flying training—the Texan T-6. The students are now in ground school and they will start flying training at RAF Valley in November. We are seeing a reduction in the number of pilots in hold, as we describe it. The peak was in July 2018, when there were 261. We are down to around 200 now and the Air Force has a plan to reduce that number to around 30 over the next two years.

Q158 Chair: After this hearing, can you perhaps supply us with a grid that shows us what the story has been in terms of the career timetable of a new recruit, from what it was before 2010 through to where it is now and where it is projected to be? Just as we referred earlier to the person who has to put his life on hold for 11 months before he can get on the next Sandhurst course, this is an even more starkly alarming situation.

Air Marshal Knighton: If I may, I will mention three things. The NAO report criticised us for our ability to have really good data right across the armed services about that timetable. The Air Force is rather better, but I will make sure that we do the best that we can in response to the Committee on that.

Q159 Chair: I think we would like to have this updated every six months or something like that, so we can see what sort of progress has been made. I think we have to keep a close eye on it.

Air Marshal Knighton: You will be pleased to know that the Secretary of State is in exactly the same position. He has written to the Chief of the Air Staff in the last 10 days or so to explain to the chief that this is the highest priority he sees for the Air Force, and that he intends to look at the plans and the numbers on a monthly basis. The final point I would make is that, having joined the Air Force in the 1990s when we went through a similar problem, we learned quite a lot of lessons about how to manage these young people going through the system at that time and also how to support them through their careers; if you were not getting to the frontline until your late 20s, that could have an effect on your long-



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term career. The Air Force is considering very actively how it will manage people through that process. We are managing all of them individually inside that holding pool and making sure that they are given, to the best possible extent, meaningful, valuable work. We have seen very positive feedback from the team.

Q160 **Chair:** Stephen, would you like a last word about anything that you would like to summarise?

Sir Stephen Lovegrove: No. Well, I say no and then I am about to say something! As always, this has been a very helpful session. Thank you very much.

I hope that you picked up in a recent speech that I gave at DSEI a reference to the work that the Committee has kicked off on an industrial strategy. Some of the questions you are asking very much accord with the kinds of question that we are asking ourselves in the Department. We look forward to talking to you more about that, because I think that many of the questions we have touched on today have some relevance to that.

We are constantly working to try to make the system work better. It is a big and complicated system, as you know better than anybody, but we are committed to improving all the things that we talked about today.

Chair: We look forward to working with you all on that. Thank you very much. It has been a long session and we have covered a lot of ground. We are extremely grateful to you all.