HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: MoD Equipment Plan 2021-2031, HC 1164.

Monday 28 February 2022

Ordered by the House of Commons to be published on 28 February 2022.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Dan Carden; Sir Geoffrey Clifton-Brown; Mr Mark Francois; Antony Higginbotham; Nick Smith; James Wild.

Gareth Davies, Comptroller & Auditor General, National Audit Office and Marius Gallaher, Alternate Treasury Officer of Accounts were in attendance.

Questions 1 - 152

Witnesses

I: David Williams CB, Permanent Secretary, Ministry of Defence; Charlie Pate, Director General Finance, Ministry of Defence; Air Marshal Richard Knighton, Deputy Chief of Defence Staff, Ministry of Defence; Sir Simon Bollom, Chief Executive, Defence Equipment and Support, Ministry of Defence.

Report by the Comptroller and Auditor General

The Equipment Plan 2021 to 2031 (HC 1105)

Examination of witnesses

Witnesses: David Williams, Charlie Pate, Air Marshal Richard Knighton and Sir Simon Bollom.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 28 February 2022. We are looking at the important issue of the defence equipment plan. This is a plan produced by the Ministry of Defence every year that plans ahead for the next decade on delivering defence equipment. It is annually reviewed but is a forward-looking plan. Over the last three years that the Committee has looked at it, it has not balanced, by quite some distance, and we have been very concerned about the gap between what is promised in capability terms and what is affordable. This year, it is presented as a balanced plan but there are very many risks to it, and we are seeing some of those crystallise in the current international situation, which we will touch on in a moment.

I am pleased to welcome our witnesses here today, all from the Ministry of Defence. We have David Williams, the Permanent Secretary at the Ministry of Defence, Charlie Pate, the director general for finance at the Ministry, Air Marshal Richard Knighton, who is the Deputy Chief of Defence Staff, and Sir Simon Bollom, who is the chief executive of Defence Equipment and Support, often referred to as DE&S. I will remind witnesses that, while we and you all tend to know what we are talking about, we try not to use acronyms if possible. Please explain them at least the first time you use them, just for the ease of anyone who is following.

Before we get into the main session, given what is happening internationally, Mr Mark Francois is going to ask a few questions of you, Permanent Secretary.

Q2 **Mr Francois:** Good afternoon. As you are aware, the view of this Committee, as articulated in our Report last November, is that the defence procurement system of the United Kingdom is "broken". That was what this Committee concluded, so this hearing this afternoon takes place in that context.

Turning to Ukraine, I have one quick question, David. Has the integrated review been overtaken by the events of the last week?

David Williams: We will, no doubt, get into this later. It is not the view of the Department that the defence acquisition system is broken.

Chair: So the answer is no.

David Williams: That is the first part. On the integrated review, the unprovoked attack by Vladimir Putin on a sovereign democracy in Europe is deeply shocking. Some of the key features of the integrated review from last year set out Russia as the most acute threat to European security, reconfirmed the central role of NATO as a defensive alliance into which our security very closely and carefully plays and, through the integration, talked about the need for a whole-of-Government response to security challenges around the world.

In terms of the basic direction of travel, the integrated review looks right to me, but we will of course want to review the calibration and our understanding of the threat and what the right response will need to be in light of events in Ukraine. Some of that may be quite quick but, in some of it, we will need a little passage of time to really understand the nature of any change in the security environment in which we are operating.

Q3 **Mr Francois:** Coming back to procurement, in the famous words of Mandy Rice-Davies, "Well, they would say that, wouldn't they?" Let us focus on Ukraine for the moment. There has been much talk about providing further military equipment and assistance to Ukraine, although the Defence Secretary has made very plain that we are not talking about putting in regular troops to fight in Kyiv. We know that.

Can you give us at least some idea of what types of equipment we are going to try to give the Ukrainians? It is in the public domain that we gave them NLAW anti-tank weapons. We understand that there are some constraints, but can you give us at least some idea of the sorts of systems that we are going to be providing to the Ukrainians?

David Williams: It is not just the UK but a range of international partners—

Chair: We know that.

Mr Francois: What is the UK going to do?

David Williams: It has been a range of anti-tank weapons, as you say, Mr Francois, and we continue to look at those stocks. We have looked at non-lethal aid such as body armour, boots and helmets. It is not strategic systems but—

Q4 **Chair:** Mr Williams, you say "looked at". What is being shipped out?

David Williams: I do not want to go into the detail of what has been shipped into country, but it is assistance to the Ukrainian armed forces in their defensive operations. It is equipment in that kind of vein, so tactical defensive weapons in the lethal space, or protective equipment as non-lethal aid.

Q5 **Chair:** For the layperson, by "lethal space", you mean guns and anti-tank weapons.

David Williams: Across the international community, there will be guns and ammunition. The UK has focused in particular on anti-tank weapons.

Q6 **Mr Francois:** The Ukrainians are fighting for their lives and for their country. They have immense respect from the international community, including from this Committee. We have given them anti-tank weapons. They are up against very heavy artillery—potentially, thermobaric weapons. In that sense, they are outmatched. They do not lack courage but they lack heavy weapons. Is there anything more that you can say on that, or is your line really, "We just cannot discuss that today"?

David Williams: The aid that we are giving is not only what we have and are willing to transfer, but also reflects the nature of the ask from the Ukrainians themselves, so there is not a mismatch at the moment in that.

Q7 **Nick Smith:** Mr Williams, to some of us, what is going on in Ukraine now looks like a land war. For a long time, we have said that we do not anticipate a land war being something that we could be prepared and ready for in the future. You have talked about looking again at the integrated review. Do you think we have enough soldiers and kit for those soldiers to fight something that looks like what we are seeing this week in Ukraine?

David Williams: Just picking up on my opening remarks, the principal vehicle for thinking about our security, and security in the Euro-Atlantic area, is NATO as a defensive alliance. It is a combination of the capabilities that the UK armed forces bring to bear, as well as those of our allies. The equipment programme that we will be talking about this afternoon includes substantial investment in the Army equipment programme and, though reduced in scale from previous fleet sizes, includes investment in Challenger tank upgrades and in the Boxer armoured vehicle. We are continuing to look to finding a way forward on the Ajax project, which, as we have discussed with this Committee, is not in an ideal place, but our plans envisage investment in equipment for the Army to make it capable to meet the threats of the future.

In terms of Army manpower, we have set out our restructuring plans to reduce the size of the regular Army to 73,000, but that is very much looking at more agile, more responsive use of Army reservists alongside the regular force structure, all within that overall context of the kind of operations that we plan and expect to undertake nationally and those that we plan and expect to undertake multilaterally or through the NATO alliance.

Q8 **Nick Smith:** I have been in Parliament for 10 years now, and the number of soldiers we have has gone down from about 100,000 to, as you say, 73,000. It seems to me as a layperson that that does not appear sufficient for the difficult times that we see now in mainland Europe and what could be over the horizon. You have talked about looking at the integrated review again. When will you do that and will you look at this key issue, please?

David Williams: When I say talk about looking at the integrated review again, it is something that we are going to keep under constant review, but just to be clear—

Mr Francois: So we are going to review the review.

David Williams: —the UK Government and, indeed, NATO allies are not in the position of deploying ground forces into Ukraine.

Chair: We are clear on that.

David Williams: We will need a bit of perspective on precisely what the lessons are from the Russia-Ukraine events for our posture and our capability plans.

Nick Smith: By way of comment, that is a bit of a disheartening response, and I would have looked for a more robust response that looked at the reality of what has gone on in Europe this last week for the future.

Chair: As Mr Francois muttered sotto voce, we have had reviews of defence reviews for some time, so I am sure there will be another one coming. We need to move on but before go into the main session, a very important issue that has arisen is around Annington Homes. Sir Geoffrey Clifton-Brown, veteran of this issue from the very beginning—you are now the corporate memory on this issue, Sir Geoffrey—is going to ask you some questions, Mr Williams.

Q9 **Sir Geoffrey Clifton-Brown:** Good afternoon. The Minister of State made a statement to Parliament on 27 January this year that he was intending to use the enfranchisement legislation to try to acquire the whole of the Annington estate of 37,000 residential units. Can you update us on that?

David Williams: Yes. First, on a point of quite important clarity, we have put papers in, as it were, for two properties. This is an exploratory action on the part of the Department to understand the full extent of our rights to enfranchisement. The exploratory point is important. We have made no policy decision that we would progress to enfranchisement of the full Annington Homes estate. It is about being clear about the flexibility that we have in managing that arrangement, alongside other techniques such as hand-backs of void properties and so on. The immediate stage is to establish the position and the extent of our rights under that enfranchisement legislation.

Q10 **Sir Geoffrey Clifton-Brown:** Clearly, Annington thinks that you are intending to go the full hog. If you did and if you managed to acquire the whole of the Annington estate, which is worth something in the region of £8 billion, would that not be a bit of a pyrrhic victory? If you are so short of money, as we are going to hear for the rest of the afternoon, where would that £8 billion come from and what would it achieve? Unless you sold the entire estate, you would never be able to realise anything more.

David Williams: As you say, the book value is about £8 billion, which is a pretty compelling reason for why, as I have said, we currently have no plan to enfranchise the whole of the estate. Against our laydown of forces across the country, as we think about flexible accommodation models—whether that is provision and servicing of accommodation ourselves, the use of the private sector rented market, or supporting armed forces personnel and their families to buy properties—the ability to change at the margin the basis of our arrangement with Annington potentially offers us some additional flexibility and additional value for money.

At the aggregate level, that £8 billion book value would have to be substantially lower than the liabilities that are now coming on to our balance sheet as part of the change in accounting standards, which is in from April this year. At the moment, that looks to me, from a purely accounting officer perspective, quite a marginal call in value-for-money terms, quite apart from the question that we would have to find the money.

As I say, it is a small step at this stage to understand how we can exercise our rights, but there is no decision on the extent to which it would then be put into practice.

Q11 **Sir Geoffrey Clifton-Brown:** I get your gist. You want to try to improve on the terms of the deal. Clearly, Annington thinks that you are going after the whole lot, otherwise it would not have made you an ex gratia offer of £105 million in its open letter to the Secretary of State on 1 February.

David Williams: On that, I now need to be careful about what I can say.

Q12 **Sir Geoffrey Clifton-Brown:** But it was an open letter.

David Williams: Yes, I understand what they said in the open letter.

Q13 **Chair:** Have you responded?

Sir Geoffrey Clifton-Brown: Baroness Liddell makes it clear it was an open letter to go to all Members of Parliament.

David Williams: Yes, and we responded to that letter on Friday. We will need to see how Annington wishes to pursue the matter, but it must be quite likely that we will end up testing this point of law in the courts, so I need to be quite circumspect about what I say.

Q14 **Sir Geoffrey Clifton-Brown:** I understand that, absolutely. The final and most important point about all of this is that the standard of maintenance of a lot of the estate is appalling, and our armed forces personnel are suffering unnecessarily. Whatever the legal wrangles are over this, what assurances can you give us that the standard of that estate will be updated?

David Williams: We are putting around £140 million a year into accommodation at the moment for its standards, as part of a new accommodation strategy, which I hope will be—

Q15 **Sir Geoffrey Clifton-Brown:** I am going to stop you there, Mr Williams, because the Report that we are studying today makes it clear that you are going to spend £500 million on this estate, which will merely lead to a standstill situation. It is nowhere near enough.

David Williams: Over a period of time.

Q16 **Sir Geoffrey Clifton-Brown:** Over a period of time, but it is nowhere near enough to start improving the estate. Surely, there is a negotiation to be done here with Annington Homes, where it puts a substantial amount of money in, match-funded by you, on a basis to try to improve the quality of the estate and to improve the lives of our servicemen, who desperately need this estate improving.

David Williams: I recognise the need for investment in the estate. As part of our accommodation strategy, when it is issued, I hope in the not very distant future, you will see a clear articulation of the standards that we are aiming to deliver for service personnel and families.

Q17 **Sir Geoffrey Clifton-Brown:** I am sorry to interrupt you but these answers are rather long. Do you accept that that £500 million, even over a period of time, as the Report makes clear, is only a standstill situation? It requires substantial additional investment to bring up the standards.

David Williams: It is additional to our underlying programme.

Q18 **Chair:** So the answer is yes.

David Williams: We will need to continue. It is not going to be the end of the story. Let me put it that way.

To your earlier point, what I will say is that, if we are engaged in a legal process to understand our enfranchisement rights, I am clear that that must not impact on the investment that we are making in the property itself.

Q19 **Sir Geoffrey Clifton-Brown:** That process is likely to take several years. Can you give us an absolute assurance that whatever goes on in that legal process will not hinder the investment in improving the estate?

David Williams: Yes, I am happy to say that.

Q20 **Sir Geoffrey Clifton-Brown:** Is that absolutely?

David Williams: As absolutely as anything from a civil servant can be.

Chair: Anyone hearing it would say that things can only get better, so let us hope that is a positive commitment.

Sir Geoffrey Clifton-Brown: We will no doubt be coming back to this subject, I am sure.

Air Marshal Knighton: I would just make one point of clarification, so that the Committee is clear on it. The £500 million as reported in the NAO Report is specifically about moving more of the estate on to preventative maintenance. There are several billion pounds of additional investment in estate optimisation, and all of that, as it is built, will be moved on to a preventative maintenance regime, so that will be improvement, as well as the additional investment in new single living accommodation and additional investment in families' accommodation. The £500 million is a very narrowly drawn piece. There is also additional investment going into Cyprus.

Q21 **Mr Francois:** Richard, all you have done is reinforce failure.

Chair: Can we use titles, please?

Mr Francois: Air Marshal, all you have done is reinforce failure, because the new contract is not very dissimilar from the old contract, which had a satisfaction rating in the AFCAS survey from armed forces families of barely one-third. The physical condition of the properties is not too bad. It is the maintenance that is rubbish. What you have redone is re-let a very similar maintenance contract to a bunch of FM companies that do not know much about housing management. All you have done is reinforce failure, have you not?

Air Marshal Knighton: No, I disagree.

Q22 **Mr Francois:** We absolutely disagree, and so do service families who have to live in it. They agree with me and disagree with you.

Chair: As a Committee, we have looked a lot at accommodation and will continue to look at this issue.

Mr Francois: And you know it.

Chair: Air Marshal Richard Knighton has laid down very clearly that he believes it is going to improve, so we will see the proof of that at future PAC hearings.

Q23 **Sir Geoffrey Clifton-Brown:** I have picture after picture here of the state of these houses. This shows extensive green mould in one of the buildings. The standard our poor service personnel are having to face in a lot of these houses is an utter disgrace, is it not, Mr Williams?

David Williams: It is a priority for the Department and for Ministers to improve the standard of such accommodation, and we will invest money to do so.

Q24 **Chair:** This will come out as we move into the main session. You now have an equipment plan that, after three years not being balanced, is, apparently, affordable. I have to say that, as a Committee, when we looked at the figures and at the NAO Report, on paper it is, but I am just looking at some of the commitments that have been made outside the plan so therefore not fully costed: a new space command, defence estate optimisation, nuclear investment, childcare provision—some is resource, some is capital, and I am mixing up a bit here—stated commitments inside the plan with quite big envelopes and some without figures attached to them.

For example, we are going to touch on the future combat air system and Typhoon, but also mine-hunting capability with a potential investment of between £200 million and £999 million, so £1.27 billion over 10 years. I am just listing a few here. These are all commitments that have been made but are not necessarily in the plan, so how can you convince us that this plan is affordable over 10 years and will not dip into deficit in the next year or two?

David Williams: I think it is affordable, but that is not to say that there are not risks, both financial and capability in its delivery. The EP this year, off the back of the integrated review and the spending review, has seen a substantial increase in the equipment plan budget over the 10-year period of some £48 billion. It has seen investment in new capabilities and increased investment in existing programmes. We have moved from a deficit where, even on our numbers, we were over £7 billion short across the period to a position where we have contingency.

We are starting from a more balanced position. Yes, there are risks that could make the cost of that programme higher. There are also some things that could move in the other direction. It is a complex programme, as the NAO acknowledges. To think that we can have an EP over 10 years without risk in it is not reasonable.

Q25 **Chair:** We know that there is risk and we are going to pick apart some of those particular risks. Your buffer is £4.1 billion. You were £7 billion, and maybe £14 billion, short because in previous years the NAO has highlighted that some of your expected efficiencies were going to be very difficult to reach. You have gone from £7 billion to £14 billion down to £4.1 billion up, but that is quite a small contingency when you look at it across the 10 years and across these various programmes. What is the biggest programme that gives you worry in terms of the money and risk?

David Williams: If I look across the 10-year period—and this will be a future of our next spending review negotiation—it is the second half of the period and the investment that we want to make in the future combat air system—FCAS—and in aspects of our nuclear deterrent. Those are the two big-ticket items where it seems to me there is still strategic choice to be made.

Q26 **Chair:** It is not just strategic choice. Let us take nuclear. There is a lot of risk as well, and a lot of mismanagement in the past, you would acknowledge.

David Williams: There is risk there for aspects of our current nuclear enterprise, particularly the new boats under the Dreadnought programme. We have separate contingency arrangements agreed with the Treasury, which we can explore a little more fully in the hearing, if that is helpful. We will probably need a similar sort of arrangement agreed at the next spending review for the replacement warhead, to ensure that we have a means of managing risk in that area whilst insulating the rest of the equipment programme.

One of the keys to delivery is having some stability in what it is that we are trying to deliver. To the earlier questions, we need to be responsive to changes in the strategic security environment, but at least minimising the self-imposed changes that have been a feature of a planning round where, in previous years, money is tighter.

Q27 **Chair:** You say "self-imposed changes"—I am going to bring in Mr Francois in a moment—but just running through some of the announcements, such as space command, R&D spending, nuclear investment and pension changes, some of these are not listed in the plan. These are things that affect lots of other Departments too, and some of this is in written in letters to me, so I have been trying to collate some of these commitments. They are not all equipment but they are still cost pressures on your budget. How are you going to make sure that you can afford all the new things that have been announced and what is in the plan? Is there a danger that you end up robbing Peter to Paul, one way or the other? Surely there must be.

David Williams: In terms of the equipment programme, you are right that a number of those issues are not equipment plan expenditure. The NAO Report has looked at potential risks and pressures in the rest of the programme. Workforce costs, including pay and pension, are clearly an aspect there.

Q28 **Chair:** That affects the equipment plan. Let us be clear. Although it is not the same cost, workforce costs can affect, for example, certainly with private suppliers, the cost of—

David Williams: Indeed. There is an aspect of workforce costs that is directly relevant to the affordability of the equipment programme. There is then a question about how we ensure the affordability overall of our equipment plans, of our infrastructure investment and of our day-to-day operating costs. It is not self-evident that pressure anywhere else in the defence programme necessarily means a reduction in headroom for the EP. That would need to be a decision that we looked at in a planning round in a spending review. In each of those areas, we have programmes to deliver efficiencies and cost reductions. As with the EP, there will be risks in those programmes as well.

If I come back to where I started, we nevertheless go into this period with a clearer strategy than we have had before, with an equipment plan where the cost of the programme is less over 10 years than the budget.

Q29 **Chair:** Forgive meif I am a cynic, Mr Williams, but we have been here before. We have a plan; the plan is costed and the plan is currently in balance, but we know that it does not take much to knock it out. For reasons that we will go into with other colleagues during the session, there will constrained funding at some point, which will then mean that you have to make decisions about capability. It is quite likely that that is the case. There are always announcements made by politicians, and we have a general election coming in the next couple of years. You could see things then that could knock this out quite quickly. Do you acknowledge that constrained funding could very much impact capability, or do you really believe that, within this plan, you can deliver anything that is in it within the cost envelope that you have?

David Williams: This pre-dated my return to the Department as Permanent Secretary. I do not pretend that getting to this equipment plan has been a set of easy decisions. There have been difficult decisions, which

Members of the Committee may or may not agree with, to retire some in-service equipment and to think about the profile and timing of replacement projects. If we are to maintain the affordability of the equipment programme going forward, that kind of discipline needs to be not just a one-off in the integrated review but how we conduct ourselves year in, year out.

The contingency is not there, fundamentally, for bright new ideas, but for dealing with cost pressures in the first part of the period, although we have some unallocated headroom, which either Mr Pates or Air Marshal Knighton might wish to talk about, in the later years around research and development to allow us to bring new capabilities in then.

Q30 **Chair:** This is one of the problems. I am going to turn to Mr Francois, but you often move things to the right. This was a great thing in 2010 and 2012. Were you in the Department then? I forget—forgive me. It seems such a long time ago.

David Williams: I may have been, yes.

Q31 **Chair:** Yes, you may have been in the Department with, for the first time ever, a financially qualified Permanent Secretary and a financially adept Secretary of State. A lot of projects were moved to the right, which had a big impact on capability and has compounded some of the challenges on funding, because the longer they go on, the more costs can accrue to them, even if they are delayed. They save money in those years but cause problems later on. How are you guarding against that with this plan? The capability impact of that is pretty immense.

David Williams: Let me say a few points and then Mr Pate may wish to come in. You are right that what we are trying to do is manage two financial dimensions, quite apart from the capability requirements and risk as well. That is the overall value for money as well as the year-on-year affordability of the equipment programme against the budget set for us by the Treasury and voted each year by Parliament.

You will see that, in getting to our balanced programme, we have made some decisions to defer a few future capability enhancements in our plan. The NAO highlights the Chinook in particular. That tends to save you money in the early years but puts back at least the same and possibly more money into later years. In a world of low inflation, that is an acceptable management technique. In a world of high inflation, getting into our processes, our approvals and our mindset that time has a cost value to it and that if you want to do something cheaply, you need to do it quickly, is an evolution of a plan from the baseline that we currently have.

Q32 **Chair:** One could say it was blinding common sense.

David Williams: It may be blinding common sense, but we operate within a framework where we have an annual budget that we have to live within as well.

Chair: As you know, this Committee has been quite sympathetic to the idea of moving away from annual budgets to quite that extent. However, that is about the most you will get from us today.

Charlie Pate: I just wanted to add that, when we are operating within that annual framework that you have described, we are also bringing forward equipment. Inevitably, issues happen across the 400 projects that we are managing. That is always going to happen. As well as the deferrals that the Permanent Secretary has described, we also bring forward expenditure. The NAO has talked about over £100 million that we have done this year, and we are expecting to increase that number by the end of the financial year. We are really dynamically measuring things.

Q33 **Chair:** Can you give us an example?

Charlie Pate: A recent example is the CSAT aircraft that was in the plan for later years. We have been able to procure two of those very quickly within the year, which has removed cost from later years in the plan and we have spent it this year. It is a dynamic plan that we have to manage year on year, given the parliamentary constraints.

Q34 **Mr Francois:** We just want to establish how you have done this. The plan itself and its total value over the 10 years has grown by some 25%, as it were, overnight. Suddenly, it has gone up to £238 billion. I think you said, Mr Williams, that it is £58 billion larger than it was before.

David Williams: £48 billion.

Q35 **Mr Francois:** Yes, that is what I had—£190 billion to £238 billion. Can we just be clear how you have done it? We had the extra £4 billion a year for defence, which takes you out to 2024-25, and you have just assumed that the defence budget continues to grow thereafter. If we are right, you have used the GDP deflator as defined by the OBR. For the second half of the plan, you have assumed that the defence budget continues to grow by 2.1%, but the commitment is 0.5% in real terms. If inflation stays at 2.1% for those five years, you add in the 0.5% and the defence budget will grow by 2.6% each year for the remaining five years of the plan. Did we get that right?

Charlie Pate: That is correct, yes, and that has been agreed with the Treasury.

Q36 **Mr Francois:** That is a Treasury assumption, but it has not been cleared in a PES round. It is the working assumption meanwhile, but it would be subject to a public expenditure review.

Charlie Pate: Yes.

Q37 **Mr Francois:** We are all absolutely clear about that. In other words, the way you cram a quart into a pint pot is you expand the pint pot to be the size of the quart, is it not? You have made it a lot easier because you have just given yourselves an extra £48 billion to play with, so no wonder it balances.

Charlie Pate: We have increased the budget in the way that Mr Francois describes, and that has been agreed as a planning assumption by the Treasury. You are quite right that future spending reviews and Parliament will take the decision on exactly what that is, but that growth rate is a lot less than the growth rate that was given to us in spending review 2020. The agreement is that that is a prudent assumption. Of course, there is risk because it is not agreed. It is a planning assumption for 10 years.

Q38 **Mr Francois:** We just wanted to be clear—and for anyone watching the hearing to be clear—how you have done it. It is fair to say that we are all on exactly the same page about the methodology. In terms of the risk, what confidence can this Committee have, with all of the different things you have to balance it off, that you can make it work?

Sir Simon, we do not want to leave you out. The equipment plan is now nearly £250 billion of British taxpayers' money. The Government's own auditor, the Infrastructure and Projects Authority, audited the top 36 procurement programmes and published its report last March. It grades them on a traffic light system. Red means you can forget it. Green means it is on track to both time and cost. Sir Simon, how many of those 36 programmes were graded green?

Sir Simon Bollom: Let me just correct you on a couple of points, if I may, in terms of what the gradings mean. Green is on track. Amber means successful delivery appears feasible. Significant issues require management attention—

Q39 **Mr Francois:** We do not need the whole list, Sir Simon. The question was about how many were green.

Sir Simon Bollom: I think it was four.

Q40 **Mr Francois:** None was green.

Sir Simon Bollom: I have a list that says four.

Q41 **Mr Francois:** No, I have the whole list here. None was green. You tell me which the green ones were. None was green in the report—not one. You tell me which were the green ones.

Sir Simon Bollom: I have a list here of 57 programmes. You have 36.

Q42 **Mr Francois:** Of the 36 highlighted in the report, not one was green. I went through each one. You tell me which were the green ones.

Sir Simon Bollom: On the 36, I agree.

Chair: Can we be clear, Mr Francois? You are referring to the defence equipment plan report, just so we know which document we are talking about.

Q43 **Mr Francois:** What I am referring to is the Government's own auditor's analysis of the equipment procurement programme. You have just told us four of them were graded green.

Sir Simon Bollom: One of them—MIV—is green. Boxer.

Q44 **Mr Francois:** Do you mean now? I do not think that you will find that that is right. I am talking about last July when they published the plan.

Sir Simon Bollom: Most of them are not green.

Q45 **Mr Francois:** Hardly any—I still think none. We will back-check it. That is not that you have been unlucky once or twice, or that a couple were particularly difficult. You have 36 major programmes, of which you oversee the bulk, but not all of them, to be fair. The bulk of them are within your empire—DE&S, which, by the way, employs 10,000 people to do what the Israelis do better with 2,500. Surely that is systemic failure, is not? There are 36 programmes and not one is on track. That must be systemic failure.

Sir Simon Bollom: I am sorry, but the point I was trying to make was that amber does not mean it is off track. It means that there are issues that need to be resolved. The bit I was just going to come to is the last part of that definition: these appear resolvable at this stage.

Q46 **Mr Francois:** How many were amber?

Sir Simon Bollom: I do not have the number in front of me.

Q47 **Mr Francois:** Fourteen—barely a third. This is the problem. You are trying to tell us that you have all this extra money and you are going to spend it effectively, when your actual record of spending it is dire, is it not?

Sir Simon Bollom: No. The cost of my programme over the last three years has reduced by £5 billion. We have delivered £6 billion in independently audited efficiencies. You are asking me about costs, Mr Francois.

Q48 **Mr Francois:** I am asking you about equipment being delivered on time and on cost to the armed forces, in case we have to fight a war. Look at what has just happened. This is not a parlour game.

Sir Simon Bollom: I absolutely recognise it is not a parlour game.

Q49 **Mr Francois:** Do you want me to list them all? Do you want me to go through the whole litany of failures?

Sir Simon Bollom: Do you want to have a conversation about this?

Mr Francois: Yes.

Chair: Sir Simon, do you want to answer?

Sir Simon Bollom: On cost, as I just said, the cost of our programme has reduced. 81% of the PPST set that is independently looked at by the NAO are on track in terms of cost. We cost our programmes at 50%. 81% of that PPST set are on or below cost. That is a fact. I do not want to sit here and pretend that our programmes are perfect, because they are not—

Mr Francois: You cannot—

Chair: Can we have one person speak at a time? Sir Simon, carry on, please.

Sir Simon Bollom: It is really quite difficult.

Mr Francois: Have a go.

Sir Simon Bollom: I will have a go.

Chair: Can we have just one person speak at a time?

Sir Simon Bollom: I am trying to get a point across, which is that we need to improve in terms of time, and we have. Over the last three years, it has gone from 48% to 61% in terms of programmes that are on schedule or have delivered to time.

Q50 **Mr Francois:** We are going to come back to Ajax later, and we will press to test a bit on that. Very quickly, on the programme to improve the engines on the Type 45 destroyers—a £1 billion warship, arguably the best air defence destroyer in the world—last July, one in six was operationally available, largely because of problems with the power plant. You have a plan to put that right by 2028, six years from now. When the carrier group went out to the Far East, one of those two broke down—in fact, it broke down twice. It had to put into Taranto and into Singapore, when it is meant to be guarding the carrier.

In the House of Lords last week, a previous First Sea Lord described the PIP programme as "a disaster". Why are some of the most capable warships in the Royal Navy almost permanently tied up alongside because their propulsion systems do not work and you do not have a plan to fix it properly for six years?

Sir Simon Bollom: That conflates one or two issues. Let us talk about carrier strike group.

Mr Francois: I asked you about the propulsion programme.

Sir Simon Bollom: How would you like to do this, Chair?

Chair: Mr Francois, let Sir Simon start by explaining the relationship with the carrier strike group.

Sir Simon Bollom: I was going to talk about carrier strike and the integrity of the Type 45. One ship, HMS Diamond, had an engine failure. It put into Taranto. It had an engine change. It was not available for 40 days. Defender was out there as part of the strike group. That deployed, 100% serviceable, plus 200 days on deployment. I would just say that Diamond had a defect. It was sorted very expediently in a foreign port.

Q51 **Mr Francois:** No, it was not. Sorry; you must be accurate. It broke down again, did it not?

Sir Simon Bollom: Not to my knowledge.

Q52 **Mr Francois:** I think you will find out that it broke down twice, did it not, Air Marshal?

Air Marshal Knighton: It had five further days in Souda Bay for an unrelated issue. I spoke to the captain of the carrier and now the commander of the carrier strike group about this and the impact that it had. To reinforce Sir Simon's point, Defender steamed 51,800 nautical miles and was fully available for 224 days. The loss of Type 45, according to the captain of the carrier, was not an issue in any operational sense, because of the additional support we had from Diamond, and also the Dutch and the Americans.

Q53 **Mr Francois:** Because we were not at war. What if we had been at war? There is a war going on in central Europe. How can it be that we have six of these critically important ships, and barely one or two are available at any one time? We have known about this programme for years, and your recovery plan takes six years. There are Russian tanks surrounding Kyiv as we speak. Why is it six years to put this right, Air Marshal?

Air Marshal Knighton: I will defer to Sir Simon on the details of it, but these are complicated programmes of work. The engines and systems that were put into it have not proved to be adequate, and it was deeply disappointing.

Mr Francois: Why do you not fix them?

Chair: Can we have one person at a time speak? Can we let Air Marshal Knighton speak?

Air Marshal Knighton: You have to cut a hole in the side of the ship to take it out. It is a complicated and complex piece of work to be done. If you want to maximise availability, you want to do that as quickly as possible, when the ship is in dock. What you do not want to be doing is trying to do that completely separately to the routine maintenance of the ship. You can do these things together, which gives you better availability. That requires you to take more time over it. It is a technique that we have used in the air domain for many years.

Mr Francois: Six years.

Sir Simon Bollom: But that is not the whole story. The whole story is about blending in that maintenance activity with operational demand. If you want to do it the most efficiently, you would probably put two ships in at a time and get it done quickly, but as you point out, there are only six ships available, and we have to blend that in with the op plot.

Mr Francois: If they are not available anyway, it is a chicken and egg—

Chair: Mr Francois, could you let Sir Simon finish without interrupting?

Sir Simon Bollom: I am trying to answer your question.

Mr Francois: No, you are not.

Chair: Let Sir Simon put his answer on the record and then we can make a judgment on that.

Sir Simon Bollom: The next point on record is that that programme has not gone as well as it should have done. 11 months late on the first ship, for a number of reasons, many down to Covid and constraints inside the shipyard. As Air Marshal Knighton pointed out, it has also been technically complex. The first ship, Dauntless, is done. It is on sea trials right now. Daring is loaded into the Cammell Laird yard. There are a number of plans that we have to try to combine maintenance and upgrade out into the future.

I have one more point. The engine upgrades are only one part of it. There is the additional electrical power. Since we had the issues with Type 45s and the blackouts, there has been a programme known as the engineering improvement programme, which has put something like 53 new modifications into the system, which have given it much greater stability, and blackouts are now almost a thing of the past. We have improved it. The PIP programme is not going as quickly as we would like, but what we now have to do is to blend that in with the op plot.

Mr Francois: Sir Simon, you are a football manager who is 36-0 down at half time and trying to persuade the board of directors that you are winning the match. I have not got on to your bonus yet. I will ask about that later.

Q54 **Nick Smith:** I want to take up the issue that you previously raised about programmes being pushed to the right. What is coming out today is frustration about us having people and kit ready, should there be a war that we are involved in. The example that most comes to my mind is the aircraft carriers and the jets that go on them. I believe we originally planned to have 138 F-35s; that was the deal. We now anticipate that, 2025, we will have 48. It could be reasonably argued that we are relying on the US Marine Corps to put jets on our aircraft carriers at the moment. Air Marshal, how many F-35s will be purchased in the second tranche? When will they be ready to enter service? We should not have to rely on another country to keep our own aircraft carriers armed and ready for service, should we?

Air Marshal Knighton: You are right. 48 aircraft is the commitment that we have made in terms of contracts with the Joint Program Office in the US and with Lockheed Martin, and they will all be delivered by 2025. We have 24 at the moment. Three are in the US, which are our trials aircraft. We get six this year, seven next year, four the year after and seven the year after that.

What we did in the revised equipment plan, because of the increased budget that we had, was to put in provision to buy additional aircraft—this second tranche, as you describe it. When I was with him in front of the House of Commons Defence Select Committee, the Secretary of State made the point that the final decision on that number would be dependent on the Joint Program Office demonstrating improvements in support costs and also in demonstrating that we were making progress on fitting British weapons on to the F-35.

We are negotiating those details at the moment, but our planning assumption is that we will purchase a further 26 aircraft, and we have put into the programme sufficient provision to do that, which runs beyond the 10 years that the NAO Report covers. The first of those aircraft are delivered before the end of the decade.

Q55 **Nick Smith:** We originally hoped to have 138. We are going to have another 26, which is roughly half of what we said we needed.

Air Marshal Knighton: It takes us to 74. I have made this point to the Committee before. We may still choose to buy more F-35s. That will be dependent on the decisions that we take around the future combat air system in the middle of this decade. Additional F-35s are an option as part of that wider programme. For the moment, our planning assumption remains 48 through to 2025 and, dependent on negotiations and progress in the areas that the Defence Secretary set out, that will take the fleet to 74 or that kind of number.

Q56 **Nick Smith:** So roughly half what was originally planned. I just want you to say that.

Air Marshal Knighton: 74 is clearly close to half of 138, but the key point is that we will make a decision about whether we are going to buy any more F-35s in the middle of the decade, which will be made around assumptions we make around the future combat air system, and whether we decide we are going to have further F-35s and/or invest in the future combat air system. That is a decision for a Government to take at the next spending review.

Q57 **Nick Smith:** It seems that we are still going to have to rely quite heavily on the US Marine Corps jets on our carriers for the next five to eight years.

Air Marshal Knighton: The position we are in today is that we have a single squadron. By 2023, we are standing up the second squadron and will have the availability to put up to 24 UK jets on to the carrier. We could choose to put marine corps jets alongside it, but that number and model shifts quite significantly over the next few years as we run up to 48 aircraft more than the 24 than we have at the moment.

Q58 **Nick Smith:** I can see us returning to this. Air Marshal, you budgeted £1.4 billion for the 24 aircraft you think we are going to get. Is that sufficient?

Air Marshal Knighton: As I explained in my answer, that £1.4 billion covers just this 10-year period. There is additional investment that we will need to make beyond 2030, which we have in our planning assumptions for that second decade. The costs and the provision go beyond £1.4 billion. We have put sufficient in for the airplanes, the infrastructure, and the support costs associated with operating those additional aircraft.

Q59 **Nick Smith:** It sounds to me you are confirming what the Chair was saying earlier on in the session, which is that you are pushing projects and costs to the right and, in the meantime, it seems to me that we are not going to have enough of our own jets on our aircraft carriers.

Air Marshal Knighton: If more funding were available or Ministers had decided to prioritise in a different way, we could have taken some things out of the programme and put F-35s in earlier, but we live within the budget that we are allocated. As you have heard, that is affordable for the first time for three years. The priorities and the balance of capability risk and financial risk that we and Ministers have to make lead us to this position that we are in now.

Nick Smith: Mr Francois asked me a question about variance, which I did not properly understand.

Q60 **Mr Francois:** The 48 are Bs—carrier-capable. Are the other 26 Bs?

Air Marshal Knighton: Yes, all F-35Bs.

Mr Francois: No A and No C?

Chair: No downgrading at all.

Mr Francois: The critical thing is that they are all carrier-capable.

Air Marshal Knighton: That is exactly right.

Q61 **Chair:** We have asked this before but let us ask it again: there is no prospect of them being downgraded.

Air Marshal Knighton: No, that is the plan, so they can all go on the carrier, exactly as you describe.

Q62 **Antony Higginbotham:** I want to turn to two other specific programmes in the equipment plan, Typhoon and FCAS. This is probably for you, Mr Williams. I declare an interest: they are both very important projects for my constituency up in Burnley, with lots of people employed by BAE and the broader aerospace sector. Typhoon is currently hugely important to our air defence. FCAS was reconfirmed by the then Secretary of State in 2018. Is there a reason why the Radar 2 project in FCAS was not in the equipment plan last year, given that strategic importance?

David Williams: I might look to Sir Simon on Radar.

Sir Simon Bollom: It is probably more to do with FMC, but I can jump in on the programmatics.

Air Marshal Knighton: To the Chair's comment at the start of the session, the programme that we had in 2019-20 and 2020-21 was not affordable. Through the spending review in 2020, we were able to put the funding into the programme to take Radar 2 from where it was, which was in development phase, right the way through to production and delivery to the front line. It was the uplift in the budget that enabled us to fund it properly.

Q63 **Antony Higginbotham:** I understand that, but would you not still include the capability in the equipment plan? Otherwise, we do not know what we do not know. Is there equipment that we know we need now that is still not in the equipment plan?

Air Marshal Knighton: The equipment plan includes the equipment that we plan to buy and that we can afford to buy. When we do our planning, we think about what capability we might want and we seek to prioritise what that capability is by looking at the opportunities offered by new technology, the way the threat is changing and, therefore, the risks that we carry. What we are trying to do all the time is to present Ministers with options around the balance of the capability risk and the financial risk. What we will not do is put programmes into the equipment plan and declare them that we do not have budget cover or funding for.

Q64 **Antony Higginbotham:** Even if you know you need them? In terms of FCAS, for example, Secretaries of State have been very clear for years that it is a very important programme. I have constituents working on it and BAE Systems putting money into it. It is a part of the MoD's core strategic priority and we had the White Paper on combat aircraft. Even with all of that, it could left out of the equipment plan.

Air Marshal Knighton: What exactly happened in 2015 was that funding was set out aside to do the initial innovation and technology investment that would rebuild the skills and tell us more about the technology that we were going to have. That was about £2 billion that was put into the programme in 2015, but there was no funding put in beyond that, and it was recognised that that would be a decision that had to be taken in 2020, which is what we did.

It is fair to say that, if we had not put that funding in to move the future combat air system programme on to the next level, we would not have been able to continue and exploit the investment that we made and that was set out in the combat air strategy in 2018.

Q65 **Antony Higginbotham:** If I could dive into the future combat air system a little more, do you now have a total cost for development of that aircraft?

Air Marshal Knighton: We have some planning assumptions but we are still early in the concept phase, and we are working through the assessment phase. Until that work has matured, we will not be able to make a better estimate of what the costs are. As the NAO Report says, programmes early in their lifecycle are much less certain in terms of what that future cost is going to be.

The other factor in the future combat air system particularly is who the international partners in that programme are going to be and how much money they will bring to it. The assumptions we made, which are laid out in the NAO Report, are that, if the UK funded 60% of the programme over the next 10 years, it would need something between £10 billion and £17 billion.

Those assumptions around what other partners might provide are already changing, and the work of these next few years is to define what that partnership should be and to negotiate who is going to be partners and how much money they are going to bring. Then we will know whether the provision we have made is adequate or whether we will need to make bigger provision or change our plans.

Q66 **Antony Higginbotham:** £10 billion to £17 billion is the current working assumption of what the UK contribution could be, but there is only about £10 billion allocated to it in the plan.

Air Marshal Knighton: That was the assumption in 2020, but it had no veracity around the 60% mark. It was what we understood then in terms of what we might expect from other partners. That has already changed. You saw, before Christmas, that we agreed with Japan that we would do some work on joint engine development, which will have an impact. Italy has said that it will commit additional funding. The exact profile of that is still to be decided. There is still quite a long way to go before we know whether we need to find more funding and whether we have sufficient or too much.

Q67 **Antony Higginbotham:** In terms of the funding that you get from international partners, when you go and have those conversations with Japan and Italy, if we do not know the final cost, is that a percentage of development costs? Is that the conversation you have?

Air Marshal Knighton: It is a mix. We have signed MOUs with Sweden and Italy to examine future concepts and to help us understand what the industrial construct, the costs and contribution of those two countries might be. With Japan, the situation is slightly different. We have agreement with it to look at the engine, and that will lead us on to further conversations about the overall system. The work of the next couple of years is to understand what that project and programme might look like.

Q68 **Antony Higginbotham:** I understand all of that but I just want to push you. As a Committee, it is very difficult for us to scrutinise what MoD is spending on a project if we do not have a bucket of money to look at. It sounds like there is a prospect that, 10 years down the line, we have spent £17 billion, our partners have spent a couple of billion pounds, and we still do not know the endpoint. We accept inflation and all of that, but at what point do you broadly look at it and go, "This is the total cost of the programme. Here is what our partners put in and here is what we put in"?

Air Marshal Knighton: There will be a couple of stages as that is refined. We are planning to have a second outline business case at the end of 2024. At that stage, we would hope to have a much clearer understanding of partners and the contribution that they would make. We would also expect, at that stage, to have a more refined understanding of the costs, because the concept will be more refined.

Q69 **Antony Higginbotham:** Do you know how much we will have spent by that point?

Air Marshal Knighton: About £1.2 billion—that kind of order of magnitude.

Q70 **Antony Higginbotham:** And that is just the UK contribution.

Air Marshal Knighton: That is just the UK contribution, yes.

Q71 **Antony Higginbotham:** Can you tell us what the partners will have spent?

Air Marshal Knighton: At the moment, neither Italy nor Sweden have definitively said what they will spend over the next few years. We know, with Japan, for example, that we are each spending about £30 million on the engine development. That cost gets refined again when we get to the full business case. At that point, we have to be able to demonstrate to the accounting officer that we have a programme that is affordable in the standard time, and that we understand what we are going to get for it. That refinement will happen over the next few years. The challenge that the NAO set out is that it might be more than the £8.65 billion that we have provisioned, but we will not know that definitively. That will be a judgment that has to be taken around the middle of the decade, which brings me back to Mr Smith's point about F-35s.

Q72 **Antony Higginbotham:** What happens at that point? If, in 2024, we go, "We have spent £1.2 billion and our partners have spent a little bit of money," and then you forward-look and go, "We have grossly underestimated how much this programme is going to cost but we have sunk £1.2 billion and do not have a strategy for a future combat air system without this," do we not run the risk at that point that we do not end up with a replacement for Typhoon?

Air Marshal Knighton: We run the risk at that point that we do not end up with a multinational programme with the UK leading it at that point. We know that we need to replace Typhoon. At the moment, our plan is to do that through a multinational programme with the UK in the lead, but until we better understand the costs, and the Government and Ministers of the time make that decision, we will not know definitively what will happen.

Q73 **Antony Higginbotham:** Is the £1.2 billion just for the single aircraft that we know as Tempest or FCAS, or does that include what is termed Loyal Wingman, the unmanned aircraft, and the swarms, or does that fall into a different budget pot?

Air Marshal Knighton: That £1.2 billion will be developing concepts, which will include examination of additive capabilities in the way that you describe.

Q74 **Antony Higginbotham:** By "concepts", do you mean physical equipment or is it the way the system will work?

Air Marshal Knighton: The way the system works is about maturation of key technologies. By 2024, you will not have a Tempest aircraft that will be representative of what you will have in the long term. There are other programmes that will fund the development of some of those types of additive capabilities that sit alongside, but what we will have to do with the concept work is judge the extent to which those additive capabilities will adjust the capability requirement of the core aircraft, which will then inform the costs and the time estimates that we make as well. That is why this concept work over the next few years is so important.

Q75 **Antony Higginbotham:** So £1.2 billion by 2024 is the core aircraft development and looking at what that looks like, and then the concept of how that operates within a broader air remit.

Air Marshal Knighton: I spoke to the Minister about providing the Committee with a fuller briefing on the future combat air system, which we would be very happy to do if that would be helpful.

Antony Higginbotham: It would be very helpful.

David Williams: Not least because, just drawing that segment back to your earlier question to me, Chair, it is that combination of issues and decisions that is why FCAS is one of the key issues for us at the next spending review.

Q76 **Antony Higginbotham:** Just on Typhoon and Radar 2, how much of that project is currently delivered? Is any of it currently delivered?

Sir Simon Bollom: The base radar is an evolution of an E-scan radar that was trialled on Tornado years ago, under a programme called Reforger. Bright Adder then took the technology development forward. The radar system itself is reasonably mature. The difficult bit with this programme, as always, is going to be the integration. It is more than a radar. It has to integrate with the defensive aid systems on the aircraft. It has to be part of the mission system in the aircraft. That is part of a bigger programme in Typhoon called P4E.

Q77 **Antony Higginbotham:** So this is not being delivered on its own as a single project. You are saying that this is being wound in with a number of others.

Sir Simon Bollom: It is.

Q78 **Antony Higginbotham:** So no Typhoon aircraft currently have that upgraded radar.

Sir Simon Bollom: No.

Q79 **Antony Higginbotham:** When do you expect that to happen? When will they go into the hangar and have those radars replaced?

Sir Simon Bollom: The IOC at the moment for the radar—when it will be fielded—is 2030.

Q80 **Antony Higginbotham:** It is quite a way out.

Sir Simon Bollom: It is quite a way out. In terms of the first radar integration, that was 2026.

Q81 **Antony Higginbotham:** You are saying that this radar is one that was fitted to Tornados before. Is there not a risk that we are fitting a radar that will be a decade old?

Sir Simon Bollom: Just to be clear, there is scanner technology, so the front end of it is reasonably well understood. The clever bit is the electronics that sit behind it, and that is absolutely the nub of the development programme.

Q82 **Antony Higginbotham:** That is the expenditure that is happening now.

Sir Simon Bollom: Yes.

Q83 **Antony Higginbotham:** What have we spent so far on that?

Sir Simon Bollom: I do not have a number, I am afraid.

Mr Francois: Quite a lot.

Q84 **Antony Higginbotham:** Just one further question on Typhoon, almost unrelated. In tranche 1, the plan is to retire that by 2025. I think I am right in saying that tranche 1 is about 30 operational aircraft at the minute versus just over 100 in tranches 2 and 3. Given what is going on in Ukraine and the prospect that we may need to deploy further air policing aircraft in some of our NATO allies in the east—and this is probably one for you, Mr Williams—would you consider revisiting that decision to retire those probably 30 aircraft in tranche 1, if it ended up looking like NATO needed enhanced air policing in the east?

David Williams: Not at this stage. Looking at the capability of the tranche 1 aircraft offer, we are contributing fully to the NATO air policing taskings in eastern Europe now, alongside other allies, and we can continue to do that on any reasonably likely scale with the tranche 2 and 3 aircraft that we will have in service.

Q85 **Antony Higginbotham:** What if, by the end of 2024, when FCAS is developed, the business case goes, "That might be unaffordable. We have to procure something different that is not UK-led"? Some of these—the tranche 1 Typhoons—will still be in service at that point. Could that then force a revisit?

David Williams: It is a calculation of airframe life, capability and so on, so the extension programme really is about how you extend the life of the newer, more capable aircraft, rather than the tranche 1s.

Sir Simon Bollom: The tranche 1s are of different architecture to the tranche 2s and 3s. Fundamentally, the tranche 1s are early 1990s technology, and the tranche 2s and 3s are a significant step-up in terms of capability. In terms of weapons capability, air-to-air is tranche 1, whereas tranches 2 and 3 will take all of the suite of weapons planned.

Q86 **Mr Francois:** If you have to fight what is sometimes called a come-as-you-are war—in other words, a war with minimum notice—you have to fight with what you have. You do not have time to build new, expensive equipment. Combat aircraft are a classic example of that, because they take so long to build and are very expensive. You face a chicken-and-egg dilemma because, with FCAS, BAE Systems has a very good Tempest concept, for the record. You do not quite know how much it will cost because it all depends on how many other nations buy, does it not, Air Marshal, so you are constantly juggling?

Until you can answer that question, you would be better to play safe. You were going to buy 138 F-35s. You have gone for 76, and the word on the street is that you are not going to buy many more, because you are going to keep the money back for FCAS. If the FCAS programme took longer than you anticipate, for the reasons we have just given, surely it would make sense to run on those tranche 1s, because at least you have something to fight with. With respect, Mr Williams, you have just summed up what is wrong with the Ministry of Defence in one answer: "We can keep the air policing task perfectly capably." What if we had to go to war? What if we had to fight with everything we have, and we have just thrown away 30 of our best aircraft, even if they are slightly old? Air Marshal, would you not want to keep those 30 aircraft to fight with if you had to? You are an Air Marshal.

Air Marshal Knighton: The problem with the tranche 1 aircraft is that they have much less capability than tranches 2 and 3. They will cost a very significant amount of money to keep in service beyond 2025. That money was judged by Ministers to be better spent on investing in more F-35s and the FCAS programme and other bits of it.

Q87 **Mr Francois:** But that was before last week. The world has changed. When are you guys going to get it? The world changed last week.

Air Marshal Knighton: Mr Francois is right that the events of the last few days demonstrate the willingness of Russia to be aggressive. The key to our whole strategy is to deter Russia from aggression against NATO, and we do that as part of a wider multinational construct, and we do that because of the capability that we have. The more capable assets and airplanes we have, we are better able to deter Russia.

Q88 **Mr Francois:** A last go: would it not then make sense, if they are expensive to run, which we know, to put them into storage, even in the desert boneyard in Arizona, and hang on to them, rather than flog them off to someone, just in case I was right and you were wrong?

Air Marshal Knighton: I remember when Mr Francois was a Minister in the Ministry of Defence. This was one of his questions around Tornado at the time.

Mr Francois: At least I have been consistent.

Air Marshal Knighton: You are extremely consistent, Mr Francois. On the record, I can say you are extremely consistent. The challenge with aircraft that are of a fundamentally different architecture is how you retain the spares and the technical knowledge to upkeep them, and how you keep the skills going. Focusing on those assets that are most capable and that will deal with the threat that we face is the policy that Governments of many hues have had for many years.

Mr Francois: And we will all be gone in a month.

David Williams: My only point to add is that we have a range of capable forces assigned to NATO's reaction forces and follow-on forces. Over the course of the last several weeks, the UK has responded positively to every request from SACEUR for additional support, as he thinks about the response plans that he wants to activate. It is just worth having that on the record.

Chair: We hear what you say. I think you will recognise our concerns as well.

Q89 **Antony Higginbotham:** I want to turn to the National Cyber Force, another very important bit of defence spending up in my part of the world, based in Samlesbury. In annex E of the defence equipment plan, it is in the bucket of £200 million to £999 million, which is quite a chunky bucket. Could you tell us what investment that looks like?

Charlie Pate: To be clear, that is over the spending review period out to 2024-25. I am afraid we cannot go into lots of detail on the National Cyber Force, but the Prime Minister has been clear that we are investing around £5 billion going forward in this capability. We really do not want to say too much more about that.

Q90 **Antony Higginbotham:** You cannot give an indication of the type of investment that might look like. If not, I accept that, but if the Public Accounts Committee cannot scrutinise it, who can?

Air Marshal Knighton: The investment that is made in the National Cyber Force is the single biggest investment in new capability after nuclear and FCAS. If we were to talk about what the mix is between technology and people, that starts to give away details that we would not want to do.

Q91 **Chair:** We understand that you might not be able to talk to us here in an open meeting. Would you be willing to talk to us privately on Privy Council terms? Can we perhaps negotiate with you, Mr Williams, some engagement on this issue? Mr Higginbotham is absolutely right. We are not looking at the money on this. The ISC looks at the issue, but not the money. There is a gap in the system, which we may not be able to resolve overnight, but can we start exploring that?

David Williams: I am happy to explore that. As Air Marshal Knighton said, it is a balance between people, technology and infrastructure in Samlesbury, but let us see how we can discuss that.

Chair: We had some really useful private conversations with your predecessor on certain issues that were difficult to play out in public, so we can look at that. I will get the clerk to talk to your office. Thank you very much.

Q92 **Nick Smith:** Mr Williams, cyberattack was part of President Putin's gameplan last week. This afternoon I see in the media hackers are destabilising his campaign efforts. In figure 1, for digital transformation, you have allocated £1 billion in the equipment plan. It does not seem enough. Do you think it is enough to match the scale of the challenge that seems to be ahead?

David Williams: The overall Government response on cyber defence is led through the National Cyber Security Centre, and their budget is not an MoD one. What you are seeing here is specific investment in our IT and cyber resilience, including a digital backbone, but centrally driven cyber defence. As we invest in new capabilities and new technologies, ensuring that individual programmes are resilient to cyberattack is within the programme benefit of those capabilities, if you like.

It is a welcome investment. It is absolutely an area that we need to make progress on. It is not just an MoD issue. If we are thinking about information security, we need to think as much about the wider defence enterprise and about the ability of our industrial partners to protect their systems from hostile state action and disruption as well. This is going to be an area where we will continue to want to invest, but the line in the plan so far is around a set of centrally driven programmes under the auspices of Defence Digital and UK Strategic Command, but let me just see whether there is any more detail that we can give.

Air Marshal Knighton: I will just add a couple of bits of detail to give you some context, Mr Smith. We spend roughly £2 billion a year on our information infrastructure. In 2015, there was an investment of several hundred million pounds in cyber defensive capability. In this programme, we have put more than another £500 million into cyber resilience.

Knowing whether that is enough is always a challenge, because it is a game of measure and countermeasure played out at speed, but the recognition of the priority that we place around cyber resilience, both generally, across Government, in defence and in specific programmes, is right at the front of our minds, for all the reasons that you describe.

Q93 **Nick Smith:** I am pleased you have said that. It is just that, when you describe something as the digital backbone for the provision of our war services, it seems to me that it is really high risk. I am really looking for remarks from you today that give us comfort that it is sufficient to protect our country in the future. I am pretty clear on what you have to say, but I am worried that it is not right, particularly as we will have to integrate it with our NATO partners as well. On this Committee, we have had such a history of failed digital and IT programmes that I am just very concerned about what I see there and about whether or not it is enough.

Air Marshal Knighton: We absolutely recognise the concern. We judge at the moment that that additional investment and the plan that the director, who has come in from outside of defence over the last couple of years, is adequate, but we keep that under constant review, because that threat changes very rapidly.

Q94 **James Wild:** I declare an interest, as I was formerly a special adviser at the Ministry of Defence, although a few years ago now. Mr Williams, just looking at figure 4, why is the Department forecast to spend more than its capital budget in seven of the next 10 years?

David Williams: This relates to the allocations that we have laid out to constituent parts of the Department and looks across both the EP and our infrastructure plans and so on. In terms of variations against the core spend, these are quite small. We judge them to be manageable. We have a range of approaches in place to deal with those, but let me look to Mr Pate for a bit more detail on the numbers.

Q95 **James Wild:** It is £4 billion over that period over those years, so you have savings against those figures, do you?

Charlie Pate: Mr Wild, that presumes that all the departmental contingency is spent, so it is at the very prudent level that we are saying that everything would be consumed. That is over £4 billion equipment plan contingency, but to the Chair's points right at the start of the session, there is over another £4 billion for the wider departmental spend beyond the equipment plan.

As I say, the numbers in figure 4 presume that all of that is spent. They are not insignificant numbers, but given the contingency position, we have taken a conscious decision at this stage in the plan not to fully address that pressure. This is where we have to balance financial and capability risk. Given the stage of the plan and the really significant changes that we have had subsequent to the integrated review and the spending review, some of the uncertainty that still remains in costings and the schedules, we do think that we should hold that position for a little longer.

The alternative is to take action now, but we believe that that would be precipitous and premature and that we might end up taking decisions on reducing capability that, as those years come closer, we do not need to do. This all comes down to us managing the balance between financial and capability risk. We spent a lot of time on this as we closed the last budgeting cycle. We are again looking at it this year and will continue to look as we go into the years forward.

Q96 **James Wild:** Clearly, one of the areas that makes this plan hold together, if we move to figure 6, is planned cost reductions. Here, we have £7 billion of planned cost reductions; there is no plan for £4 billion of that. That £4 billion represents roughly the capabilities that were removed during the integrated review. Mr Williams, why are you confident that the commands will be able to identify those measures at that level?

David Williams: Just building on Mr Pate's previous remarks, it is about the balance of capability and risk over a 10-year horizon. If we assume that no new savings can be generated in the later years of the plan, we will constrain ourselves to a smaller equipment programme that less well meets our capability aspirations. It is a judgment about what can be delivered. We have fewer savings measures in our current plan of low confidence than in the previous plan. That is positive, but it is reasonable to set a challenge for the Department to continue to generate additional headroom for investment in the capabilities that we need across that 10-year period.

Charlie Pate: As the Permanent Secretary said, this compares to a £12.5 billion unresolved shortfall last year, so we have significantly reduced that number. You are right that, at this stage, there are no specific plans against about £3.8 billion of those cost reductions, but as I said earlier, there are about 400 projects in the equipment plan. We look at about 80 of those, which make up about 80% of the spend. This is an assumption around savings that the top-level budgets—Air Command and Army Command, et cetera—will drive in those remaining 320 to 340 projects whose detail we cannot possibly go into at head office. We do think that there are significant savings around the scope and the priority of those projects, so it is a challenge on the TLBs, but it reflects our requirement to set taut but realistic budgets in each year for the equipment plan.

Q97 **James Wild:** You have talked about it being a 10-year plan, which it obviously is, but £2.6 billion of the unidentified savings have to be delivered in the first four years. With committed spend contracts, how realistic is it that you are going to deliver those savings?

Charlie Pate: That number reflects that. Some of what might be done here is reprioritising between years. We prudently have not assumed that that saving continues at that level beyond the spending review period. It is something that we will come back to and we do think that it is a realistic level that can be saved. With all of these savings, I would say that, when we are nearly at the end of this financial year and the first year of this equipment plan, we are within our budget as a Department, so we have delivered these.

Q98 **James Wild:** Mr Williams, what targets have you given the TLBs as to when they need to come back to you and the Secretary of State with firm proposals to deliver against those savings?

David Williams: We refine our view of progress against those savings through our annual planning round. The follow-on planning round is just coming towards a conclusion, and that will be set out in the equipment plan publication and accompanying NAO Report for, I hope, autumn of this year. It is a refinement rather than a single milestone ask. Given the step-up in the capital budget, in particular in the early years, reflecting our experience this year, more of our focus in the next financial year will be about ensuring that we can deliver on the spend that we are assuming, bringing opportunity spend forward where that makes sense rather than looking to manage spend down to a budget. We have a bit of a run into the back end of the spending review period before we need to be delivering these savings in full.

Q99 **James Wild:** So you think you will get the efficiency savings, but the Report also highlights the work done by the Cost Assurance and Analysis

Service, which found over £7 billion of costs that it thought would come forward, which are not covered in the plan. Again, that is a further pressure. What is your comment on that £7.6 billion?

David Williams: First, for a small amount of credit, that is an internal risk assessment that we are entirely transparent about. About a third of that figure relates to the Dreadnought programme and will be covered by separate contingency arrangements with the Treasury, if that risk materialises.

Q100 **James Wild:** What proportion of the £7.6 billion is Dreadnought?

David Williams: £2.6 billion, so about a third. The residual risk balances well against the contingency that we are holding in the equipment plan. When you look at the like-for-like population from last year to this year, the level of risk that CAAS has identified has gone down by about £300 million. Part of the reason is that, in the other areas, we are looking at programmes that are still relatively early in their lives. On the one hand, that means that the scope for financial risk is greater, but it also means that we have more choice at successive approvals points to think about how we manage that financial risk against the capability that we want.

Q101 **James Wild:** Air Command has also warned that one of the impacts of this will be fewer flying hours. What is that going to do to our capability?

Charlie Pate: That is around how it is managing its in-year challenge. Like all TLBs, it takes a view on the priorities. A lot of that reflects moving to far more synthetic training and how it balances that out. Ultimately, the chief of the air staff is responsible for prioritising within his budget, which each chief agrees at the beginning of the year, and that is where they think they will go.

Q102 **James Wild:** If I could come on to workforce issues, I remember the 2015 review, where a wedge was put against workforce without necessarily a whole lot of work behind it from the Cabinet Office. Here, you have the reduction in the size of the Army to 72,000, further military workforce reductions of over 6,000, and a further 10% further reduction in the cost of the civilian workforce. Are you in danger of repeating those top-down targets through this period?

David Williams: I do not think so. We touched on this at a hearing last year. The reductions in armed forces in military manpower are relatively mature. The Army has set out its plan to restructure and get down to 73,000, and the Royal Navy and the Air Force have, essentially, their plans pretty mature as well. The 10% cost reduction rather than headcount reduction in the civilian workforce is a more manageable number than the roughly 30% wedge from the 2015 spending review. Over the spending review period, that seems to be deliverable, but I will come back to the question of pay in a second. We are looking to approach it on a whole-force basis. Where commands want to look at the balance between regular, uniformed staff, reservists, contractors and civil servants, they have that flexibility. We are making progress on that. It has been a particular focus of this year's planning round and we are beginning to review how well commands and other parts of the MoD are doing in that plan.

In broad terms, it is deliverable. There are some additional reform measures that are cross-cutting, which we are looking to take forward, including our share of the Government reform focus on corporate services modernisation, looking at how we can streamline processes and automate, which will help, over the period of the spending review, commands deal with the targets that they have been set.

Clearly, when we are thinking about the costs of our workforce, we need to think about pay. Underlying inflation, cost of living and, therefore, likely pay inflation are not where they were when we settled our spending review in 2020.

Chair: They have gone up.

David Williams: We have had some assistance from the Treasury in SR21 to meet those costs and, indeed, the national insurance employer consequences of the health and social care levy, but managing that pay pressure is going to be an additional challenge for us, at least in the near term.

Q103 **Chair:** The commands were funding the extra income tax in Scotland. Is that still happening?

David Williams: I do not know.

Charlie Pate: Yes, it is. From memory, it is low-single-figure millions.

Q104 **Chair:** That does mean that we have people in the armed forces being paid slightly different amounts, depending on which country.

Charlie Pate: The Ministry is compensating for that.

Q105 **James Wild:** When would we expect to see proposals for that 10% reduction in the overall headcount cost? Do you have that internally at the moment? Do you have a line of sight to deliver that? You said that it is reasonable, but is there a bit more substance behind it?

David Williams: We are collating and reviewing plans that have been built bottom up from the front-line commands and the enabling organisations in the Department as part of this year's planning round. We will review that over the course of the next couple of months.

Q106 **James Wild:** Is one of the areas you will be looking at the level of spend on consultancy and temporary staff, which, according to your annual report, was £311 million in 2020-21?

David Williams: Yes.

Q107 **James Wild:** Do you have a target by which you are planning to do that?

David Williams: I do not.

Q108 **James Wild:** Just to be clear, that was up £40 million on the figure for 2019-20.

Charlie Pate: Our spend on consultancy and, importantly, on contingent labour and professional support services is part of those workforce cost envelopes. We are asking our top-level budgets to set out how their balance of workforce is best allocated within that budget envelope. It is important to recognise that there are different things that we are spending on there, particularly professional support services. Sir Simon spends quite a large proportion of that in DE&S for particular skills that we need and that we cannot get from crown servants. Contingent labour, similarly, reflects the state of the labour market, frankly, where we are struggling to recruit in specific sectors, so we have to bring people in, if we are not to slow down delivery of the equipment plan and our other plans.

Q109 **James Wild:** Sir Simon, your organisation spent £100 million of that £311 million, up from £76 million the year before. What lay behind that high increase?

Sir Simon Bollom: In terms of the services that we procure, as Mr Pate has just outlined, legal services is one area that is prominent there, as are independent safety advisers and, in particular, some niche engineering skills. When we are talking about, as we were earlier, things like Typhoon, Radar, et cetera, there are certain skills that we do not have within the organisation. In terms of contingent labour, in order to meet with the peaks and troughs of the demand signal, we have a number of people who we hire from the private sector market. Whereas I want to reduce those, we do not want to zero them, because it is quite an efficient way of tackling peaks in demand.

Q110 **James Wild:** What would you expect the figure to be next year?

Sir Simon Bollom: I do not have a figure with me now.

Q111 **James Wild:** Will it be lower than £199 million?

Sir Simon Bollom: The area that is probably the one that is going to bear the most fruit is in terms of reducing the amount of contingent labour that I have. In order to do that, I need to be able to hire. The highest risk for all of the project delivery organisations—and, indeed, industry—at the moment is people. It is a market for people, but I would be looking to target a reduction in that area.

Q112 **James Wild:** That is good to hear. As well as the reductions in the size of the Army, the further military workforce reductions and the 10% overall savings, there is a further target to deliver £2.5 billion of further workforce savings over the 10-year period to 2031. Do you have an idea of how you are going to deliver that?

David Williams: We have some ideas. This will be subject to agreement in the next spending review. Generally speaking, it is a continuation of the way in which investment in technology allows you to free up headcount, whether that is thinking about military capabilities or, as I was talking about, corporate services modernisation in the way we run the Department. We had some proposals that we discussed in the last spending review, but Ministers have not yet opined on those in detail, and we will come back to that in the next spending review.

Q113 **James Wild:** That is a very large figure and almost equivalent to your annual spend on permanent staff, and the clock is ticking.

David Williams: It is over a period though.

Q114 **James Wild:** Over a 10-year period, you are spending £2.8 billion every year on permanent civilian staff. Just to put it into context, it is a significant wedge on top of the already significant reductions, but you have not been able to give us a firm idea of how you are going to deliver those, other than, potentially, technology.

David Williams: It will not be met solely through civilian reductions, but we need to look at the whole-force spend, so the proportion is lower. Nevertheless, it is something that we will need to close on at the next spending review. If you ask me—and you have not—what worries me most about the workforce is less the cost and more our ability to recruit and retain people with the skills that we need. There is a relationship between the two.

Chair: I have to say, Mr Williams, we have been saying this for at least the decade that I have been on the Committee, so some of it is in your hands, at least in the four or five years that you have left here and that you are counting down on the wall in your office, to make sure that you are developing those skills through MoD and your partners. You agree.

Q115 **Sir Geoffrey Clifton-Brown:** Can we continue with you, Mr Williams, and pick up the point that Mr Wild asked you about on increases in pay? Paragraph 17 makes it quite clear that every 1% increase in pay costs you £1.4 billion. Table 2.10 in the ONS report, on increases in wages and salaries, has some remarkably high figures in there for the next five years. It reckons that, in the next five years to 2026-27, growth in salaries will be 24.7%. How are you going to afford this?

David Williams: The short answers is that, sat here today, I do not know, but there are a range of things that we can look at. In the spending review last year, the Chancellor announced the end to the public sector pay cap. In SR21, we got around £700 million each year across the remainder of this spending review period for the costs of, essentially, pay inflation and national insurance employers' contributions. We have more money at our disposal than we had when we settled the spending review a year before.

We have pay freedoms and flexibilities in parts of the Department where a need to go after a more highly skilled workforce or niche skills is more important. We are looking at approaches whereby, particularly for programme and project staff, we can capitalise staff costs against the project cost. You still have to find the money for that, but you have a bigger pot to balance against.

Q116 **Sir Geoffrey Clifton-Brown:** It is another of your unknowns. Can I then go on to the associated subject, which you were also alluding to just before Mr Wild finished, which is recruitment and retention? It is not only about recruitment and retention, but also increasing those staff with financial qualifications. We touched on this a year ago. You had 41% then. You have increased that to only 43%, so you have managed to go up only 2% in one year. The whole of this hearing today is predicated on enough people having enough skills within the TLBs and your central organisation, is it not, and yet you have made painstakingly slow progress in recruiting any more?

David Williams: Staff with financial skills, and commercial and programme delivery and so on. Mr Pate, do you want to talk about our progress?

Charlie Pate: Sir Geoffrey, you are right. The headline figures that we have are qualified and part-qualified. I have another 18% who are studying. When you remove the double count for those who have qualifications but are studying for higher qualifications, all other things being equal, including the size of the population, we have 54% who are qualified or are studying. That study takes time. We do not use Covid as an excuse at all, but I do have to reflect that several people I know of directly in that population—about 400 people are studying—did pause their studies over the last couple of years while they were managing work, childcare and everything else.

Really importantly, though, when we dig into those numbers, 85% of the senior civil service, just up from 83% at the start of the year, are qualified. That means that there are eight who are not. Six of those are studying, and I am satisfied that the remaining two do not need financial qualifications for the specific roles that they are undertaking. I then have 75% at grade 6 and 7 who are qualified. At the DE&S and the Submarine Delivery Agency, 100% of their finance staff who are senior executive officer and above are qualified. When you dig under these numbers, we are getting people with the right qualifications in the right roles.

The next stage that I am pursuing is with the Government Finance Function career frameworks that we established last year. We are rolling that out across the Department, including DE&S and the SDA, understanding exactly what roles require what level of qualification. That will give us a further level of granularity to see where our requirements are. We are not where we want to be but, from that, we are progressing and, with the key posts, we do have the people with the skills in them.

Q117 **Sir Geoffrey Clifton-Brown:** Paragraph 3.16 says, "There is now a new evaluation team in head office supporting business case scrutiny. TLBs have also now agreed on a new financial operating model, with its implementation planned for 2022. Many senior staff have also attended a two-day financial skills course". Either your answer is that you have so many skilled people that you do not need the course, or the course is grossly inadequate in time. Which is it?

Charlie Pate: No, Sir Geoffrey, let me be clear. That two-day course is for non-financiers across the Department. We cycle through very regular cohorts. I attend; other senior leaders across the Department and the Treasury attend, give talks and have discussions with staff, but that is for non-financiers. Finance staff are pursuing proper qualifications.

Q118 **Sir Geoffrey Clifton-Brown:** Can I take you on to the dreaded subject of Dreadnought? At 2015 cost estimates, Dreadnought was estimated to cost £31 billion, with a £10 billion contingency. We know from paragraph 2.14 that £1.5 billion more than the 2015 estimate has already been spent. Did that come out of reserves? Where do the £10 billion reserves stand at the moment?

Charlie Pate: Yes, that did come out of the reserve, but even with the CAAS costing that we talked about earlier, we are within the £31 billion plus £10 billion overall costing.

Q119 **Sir Geoffrey Clifton-Brown:** Let us just go on to the CAAS cost. The CAAS estimates an increased cost of Dreadnought of £2.5 billion and of the warhead of £1.8 billion. These are very significant increases in costs. Can you explain what is meant in paragraph 3.5 by, "In previous years, only one year of the Dreadnought contingency", which is, presumably, the £1.5 billion? It then goes on to say, "Reflecting the new multi-year spending settlement with HM Treasury, four years' worth has been included". Is that four years now all at once? What is the four years? We are down to £8.5 billion at the moment. How much will that four years take us down of the £10 billion?

Charlie Pate: This reflects the multi-year spending review. Previously, we have had single years, so we have had to go to the Treasury each year and agree that release, which totals the amount you said. We have now agreed £1.3 billion over this spending review period, including the current year, as our estimate of the further drawdown on the contingency, but we have agreement with the Treasury that that is an ongoing dialogue, depending on what we need to spend to maintain the schedule of the programme, which is the critical aspect of the Dreadnought programme.

Q120 **Sir Geoffrey Clifton-Brown:** In answer to Mr Wild's questions, you were talking about the £7 billion unallocated costs, of which you said a third was due to Dreadnought, which was £2.6 billion.

Charlie Pate: £2.6 billion of the £7.6 billion CAAS estimate.

Q121 **Sir Geoffrey Clifton-Brown:** That is over and above what you have just told us, so that £2.6 billion also has to come out of the £10 billion.

Charlie Pate: That is over the 10 years of the programme, and an element of that is covered by the £1.3 billion contingency over the next four years. I just want to reiterate that that £1.3 billion is an estimate at this stage, agreed with the Treasury in SR20. As the supplementary estimates published last week show, we are drawing down about £450 million of that contingency this year, which was as agreed in SR20. Each year, we are assessing exactly how much is required, absolutely to stick to the schedule. What I cannot do is add up every pound of those that you have said against the £31 billion plus £10 billion, because some of that spend is brought-forward spend that we have done to maintain the schedule. Some of it will be increases on the £31 billion but, as I say, all within the £31 billion plus £10 billion contingency.

Q122 **Sir Geoffrey Clifton-Brown:** How long will the £10 billion last?

Charlie Pate: We are confident at this stage, including with those CAAS costings, that we are within that £31 billion plus £10 billion for the lifetime of the procurement programme.

Q123 **Sir Geoffrey Clifton-Brown:** The NAO Report recommendation at paragraph 25 says that you should clearly define the purpose of the Dreadnought contingency and establish new governance arrangements, including terms on which the additional funds will be provided. Is that going to happen?

Charlie Pate: Yes, absolutely, and we are continuing discussion with Treasury. We focused in the spending review on the four years and what we needed, so that, frankly, Treasury had that as part of its spending plans, but we are refining that absolute agreement that we have in principle with it that we can draw down from that contingency, particularly where the schedule requires it.

Q124 **Chair:** When will you know that?

Charlie Pate: We hope to before the next equipment plan is published, so we will be able to confirm at that stage. It is an ongoing dialogue with the Treasury and we need that agreement with the Treasury.

Q125 **Chair:** On the one hand, they cannot really refuse it, because it is the nuclear deterrent. On the other hand, the fact that we have not get there yet and that the NAO Report highlights the challenges is a bit worrying, is it not?

Charlie Pate: Nothing has been refused up to this point. We have drawn down on the contingency what we have required every year, which I say again we confirmed with the supplementary estimates last week. There is nothing from the Treasury or, indeed, from the Department funding the Dreadnought that is holding anything up.

Q126 **Chair:** It feels like a bit of an open chequebook when you put "nuclear" in front of something.

Charlie Pate: That is why we have not yet concluded the precise agreement on that drawdown. The Treasury is clear that there is not an open chequebook. We would not want an open chequebook, but it is around ensuring that we have access, where we are driving the schedule and can prove value for money from that perspective.

Q127 **Sir Geoffrey Clifton-Brown:** Precisely to the Chair's point, if I can take you to figure 9 on page 42, it shows that, between 2018 and 2020, in terms of the infrastructure management of the Dreadnought programme, construction started before requirements or designs were clear, extra costs of £650 million; delays in identifying problems such as lack of subcontractors, £352 million; and further delays in defueling project led to a £100 million increase. That is £1.1 billion straight down the drain, so how can we have any trust in the MoD to run this size of programme and to provide value for money for the taxpayer? That is £1 billion just chucked away.

Charlie Pate: I certainly do not minimise the cost increases there.

Q128 **Sir Geoffrey Clifton-Brown:** It was agreed with the NAO. This is an agreed Report.

Charlie Pate: Yes, it was, and was subject to the Public Accounts Committee hearing exactly two years ago, and we went through that in detail.

Chair: We are going to be doing more on this, just to warn you.

Charlie Pate: These are not new issues. They were reported on two years ago. These are incredible challenging programmes and we have made no secret of that. Almost all of them are first and last in class.

Q129 **Sir Geoffrey Clifton-Brown:** To the Chair's point, anything with "nuclear" in front of it seems to just get handed out money, and there seems to be no attempt on the part of the MoD at any point, whatever bit of the MoD, to try to make sure that the taxpayer is getting value for money from this hugely expensive programme. We know it is necessary but it is a hugely expensive programme. What is being put in place to make sure that the taxpayer gets value for money?

Charlie Pate: We have made significant improvements over the years, from the hearing a couple of years ago, primarily setting up the Submarine Delivery Agency and the Defence Nuclear Organisation as, effectively, a client-contractor basis. The other element is the alliance within delivering Dreadnought that learns the lessons from the carrier and the delivery of those programmes, making sure that we are working with industry in alliance to deliver these programmes.

David Williams: On the warhead—

Sir Geoffrey Clifton-Brown: I was coming on to the warhead. You must have read my mind, Mr Williams.

David Williams: We brought the Atomic Weapons Establishment back into direct Government control last summer, collapsing the management contracts that we had previously had in place, to allow closer visibility and oversight of delivery against contracts that AWE is responsible for. Within the central Defence Nuclear Organisation team, we are substantially investing in skills and capability to act as the SRO client for that programme.

Q130 **Sir Geoffrey Clifton-Brown:** Mr Williams, given that CAAS has estimated that the increase in costs of that is likely to be £1.8 billion, how can we be sure that those new financial arrangements that you have are going to do any better than the past?

David Williams: The spread of financial risk on the warhead is the second of the issues that I mentioned at the beginning of the hearing as the thing for the next spending review that has my attention, alongside the future combat air system. We need to spend the time between now and then really refining those cost estimates. It would be sensible to put in place a similar sort of contingency arrangement that we have for the boats, to ensure appropriate scrutiny and allowing us to get on with the programme, but for it not being a blank cheque and it not being something that affects the rest of the programme.

Q131 **Sir Geoffrey Clifton-Brown:** The thing is, Mr Williams, that the contingency almost is a blank cheque, is it not? Without proper Treasury controls that I was just asking Mr Pate about in terms of the circumstances under which you can draw down on the contingency, which are not there at the moment, it is virtually a blank cheque, is it not?

David Williams: It does not feel like a blank cheque in terms of getting the agreement of it.

Sir Geoffrey Clifton-Brown: It feels like to me, I have to say.

David Williams: If you were looking at the approach, we would do better to look at, "If the cost is £31 billion plus £10 billion, what do you have to do to get it under £31 billion plus £10 billion?" rather than it being £31 billion plus incremental additions. It is just a question of where you are putting your management focus.

It is an important strategic capability. We are confident that we will deliver the boats within £31 billion plus £10 billion. We need to get a similar confidence, not least to provide reassurance to you, for the warhead, but that is work between now and the next spending review.

Q132 **Sir Geoffrey Clifton-Brown:** In the Report, it says that the MoD is in the bottom third of Ministries being able to manage and carry out their budgets properly. Is that not a bit of a shame to your Department?

Charlie Pate: It was the third quartile last year. The Treasury has started this relative assessment. It is relative and it is always going to be a bit difficult for a big Department, but it was also clear that our forecasting was top of the class last year. There are other elements, including our management information, that we are sharing lessons we have learned with other Departments. We definitely have things to improve, and I talked about that last year and again just now, but there are things that we are doing very well as well.

Q133 **Mr Francois:** Simon, can confirm that Ajax comes under the bailiwick of DE&S? Is it one of your programmes?

Sir Simon Bollom: Yes.

Q134 **Mr Francois:** It was graded red in the Infrastructure and Projects Authority major projects report. In fact, I have the report here. You told us a little while ago that there were four greens in this report from within your portfolio. Do you want to stick to that or do you want to admit that—

Sir Simon Bollom: I was referring—.

David Williams: So—

Q135 **Mr Francois:** No, hang on; do not help him. Of the 36 in here, how many are green?

David Williams: If I can clarify, we are working off data that looks at the 57 programmes in the MoD's overall portfolio, not all of which are DE&S.

Mr Francois: With respect, David, we do not need to get bogged down in this.

David Williams: We are looking at data a year later.

Mr Francois: Look, it is very simple. I said none of them was green. You said four of them were green. You inadvertently misled the Public Accounts Committee. You made a mistake; it happens. The reason I ask this in the context of Ajax is this: on 25 November 2021, on the floor of the House, when he was answering questions on the future soldier programme, the Secretary of State, talking about Ajax, implied that Ministers had not been given, shall we say, full and accurate information. He said, "My Minister for Defence Procurement is close to all those issues to the extent of examining emails to make sure that we get to the bottom of the whole range of problems on issues such as Ajax". Why would the procurement Minister have to start back-checking emails about the programme to make sure he was told the truth, Sir Simon? I am only quoting from Hansard.

Sir Simon Bollom: I am not going to sit here and try to explain what the Secretary of State has said in the House and how the Minister has reacted to that.

Mr Francois: See if you can help us with this. The Secretary of State then said, "We will get to the bottom of not only what is happening to the programme and why it potentially damaged our soldiers' hearing in the trials, but why we did not act on any of those reports over the timescale of the programme. In addition, I will leave no stone unturned in relation to how we apportion blame. I will consider external judicial, or perhaps former judicial, personnel to look at those issues, because it is really important not only that we are open about the challenges of the programme but that we fundamentally learn the lessons and that people carry the can for some of their decisions".

When was the last time a Secretary of State said he wanted to bring in, in effect, a retired High Court judge to ascertain whether he was lied to by his own personnel and, if so, by whom?

Chair: I do not know if Mr Williams can answer that specific question, but Mr Williams, you get the drive of the message.

Q136 **Mr Francois:** What I really want to know is whether has someone been appointed and where we are with the inquiry.

David Williams: Subsequent to that exchange on the floor of the House, you will see that we published the health and safety report in mid-December, and the Minister for Defence Procurement set that out to the House. That does, indeed, identify a number of serious failings in which information around the project was flowing between constituent parts of the organisation and up to senior decision makers, and that is not good enough. That is set out in the health and safety report that we commissioned to get behind a number of these issues. As the Secretary of State said there, and as the Minister for Defence Procurement confirmed in the House in December, there will be a follow-on inquiry into lessons learnt.

Q137 **Mr Francois:** Where are we on that inquiry?

David Williams: The Minister will come to the House shortly to set out who is going to lead that inquiry and the terms of reference for it.

Q138 **Chair:** And the timeframe.

David Williams: Yes.

Q139 **Mr Francois:** Do you anticipate that some of you will be called to give evidence to the inquiry, Sir Simon?

Sir Simon Bollom: We will have to see.

Q140 **Chair:** I think, if invited, civil servants have a duty to.

David Williams: Given that I chaired the investment approvals committee in 2014, which took the main gate business case for Ajax, I have recused myself from the terms of reference for the inquiry, so I do not know what its scope will be. I do not know what time period it will look at. I do not know what witnesses whoever is leading it will want to call.

Q141 **Chair:** You could be a witness.

David Williams: Because I could be a witness. I cannot offer advice on the scope of an inquiry that I might be a witness in, so it is being handled separately in the Department.

Q142 **Chair:** You will be in front of us about Ajax specifically on 30 March. Will we know the terms of reference and everything by then?

David Williams: I do not know, but I will talk to the Minister about the timing.

Q143 **Mr Francois:** There are strong rumours that Ministers know they were lied to in order to protect the programme. Hopefully, the inquiry will get to the bottom of whether or not that is true.

David Williams: The health and safety report found systemic weaknesses rather than individual wrongdoing, but we will see where the follow-on inquiry goes. It is going to be important to balance that attribution of responsibility where there have been serious personal failings, if that is what is found, with the need to have the kind of safety culture where people feel able to raise concerns and have those concerns acted on. The nearest equivalent for me is probably our Haddon Cave inquiry, back to your earlier question. We will see what the terms of reference when they are out. They may well be published or announced to the House by the Minister before the hearing in a month's time.

Chair: It sounds like we will be talking about Ajax for some time to again, both here in and in other fora, so we will keep our powder dry for 30 March.

Q144 **Sir Geoffrey Clifton-Brown:** Air Marshal Knighton, you are the man who is responsible for delivering all this equipment to the various bits of the MoD. This is a genuine question of enquiry. It does seem to me that this plan is not really necessary. It is based on a whole lot of past assumptions, without looking at what is really happening out there in the world. For example, why are we not looking at hypersonic rockets, when we know the Chinese have an electromagnetic capability? Why are we not looking at defensive and offensive capability for satellites? Why are we not looking at drone technology? All of these things surely ought to feature in a defence equipment review.

Air Marshal Knighton: I would say that, for all of the things you read out, we have elements of programmes that are examining the technology and the potentially capability. The premise of your question is that we are looking backwards, not forwards. I can offer you every reassurance that, as we went through the process in the integrated review, we were very firmly focused on the likely conflicts that we might put our capability into in the future and used that analysis to identify where the risks were in terms of delivering the outcomes that the Government want, and also where the opportunities might be in terms of the development of new technology.

The overall strategy that we had in developing the equipment plan was to close the capability gaps that we knew about and to create some headroom to be able to invest in the technology, the research and the development to develop those new technologies, like directed energy weapons, in order to be able to have the capability that was going to be required to deter our potential aggressors in the future and to be able to more rapidly develop that capability.

One of the things that we did in establishing the future budget is that we have £4.1 billion that is unallocated for exploitation, further development of new technology and the innovation fund, which is for the second half of this decade, and that is how we will be able to pull through the technology that we are developing through the research and development investment that we are making over the next few years.

Certainly compared with where we were in 2015 and 2010, we place much greater focus on research and development and that new technology and capability. There will be some investment decisions that we will need to take in the middle of the decade, when we know how that technology has matured. With the kind of leading-edge capability that we are examining, some of that will not be mature enough or simply will not work, which is why we have a plan of a portfolio of technology investment.

The science and technology strategy that our Chief Scientific Adviser and the Defence Secretary published in September/October of 2020 lays that out quite clearly. It talks about those areas where we really need to focus in terms of investment. We will not know until that work has matured, but we have set the conditions to be able to develop that technology, invest in it and deliver it to the front line, in a way that we have not done before.

Q145 **Sir Geoffrey Clifton-Brown:** What I am hearing from your answer is that you are not going to even start on the development of this until 2025, and then we do not know how long it is likely to take to bring them into operation. The world is a pretty uncertain place.

Air Marshal Knighton: I am sorry if I have misled you. We are investing in the development of that technology now. If you take the space portfolio, for example, we will be putting satellites on orbit over the next few years. We have a decision to make in the middle of the 2020s about which technology we want to focus on—

Sir Geoffrey Clifton-Brown: That is my point.

Air Marshal Knighton: —and we have funding set aside for that. We will deliver real technology and real capability and be able to get that, which will be useful.

Q146 **Sir Geoffrey Clifton-Brown:** I get that, but if you are not going to even make a decision on which technology you are going to adopt until 2025, it is bound to take until 2030. Meanwhile, some of our allies' satellites, which are absolutely key to the modern world, are very vulnerable.

Air Marshal Knighton: I will have one more go. The point about research and development and science and technology is you have to make investment over the long term. The investment that we are pulling through into capability and delivering today, whether that be in new missile systems, is from investment that was made potentially back into the 2000s and maybe even earlier. What Dame Angela, our Chief Scientific Adviser, would say if she were here is that you have to have a portfolio of science and technology and research and development programmes, some of which will be for the generation after next and you might not see the capability until the 2030s, and some of which we will want to accelerate and pull forward now—

Sir Geoffrey Clifton-Brown: The Chinese have them now.

Air Marshal Knighton: That is what we will be doing over the next few years.

Q147 **Sir Geoffrey Clifton-Brown:** Chair, could we ask for a briefing on this? This is quite a serious matter.

Air Marshal Knighton: We would be delighted to do that.

Q148 **Chair:** We were discussing a private briefing, so let us see what we can wrap into this. I am aware that you will have constraints, but we also want to hear what is going on, and there needs to be some place that it is happening. We will have a conversation about that outside the room.

It feels a bit like groundhog day, does it not, for you, I am sure, as well as for us? You have a bit more of a balance this time round but there are a lot of risks and a lot of things keeping you awake at night.

David Williams: There are a lot of risks. I take no credit for this because the decisions that got us to this position were all taken before I arrived in April—I mean that positively—but it is genuinely a more affordable, more balanced plan than the one that the Department has had over the previous three or four years, which is real progress. That does not mean that it is not a hugely complex programme, and there are a range of both financial and capability risks that we need to manage.

Q149 **Chair:** We have talked about the local decision-making lower down and, as you said, Mr Pate, you cannot micromanage everything from Whitehall, but what is the consequence if they do not meet their savings targets? This is one of the problems when we look at this—that is why I said groundhog day. Once again, someone overspends and there is no consequence for that. It still ends up being funded. We have talked about nuclear today. What is the consequence for the TLBs is they do not deliver?

Charlie Pate: Ultimately, that is a wicked problem for public services. It is difficult. We want the capability and we want it delivered, and so we have to, in the main, fund it. There are a couple of things. The first is that, with a plan that is now in balance, I have seen a sea change in the Department and the sense of cost control throughout the Department. As I said earlier, the TLB holders and the chiefs and chief executives have now agreed their budgets and agreed that they are realistic, and are looking to manage within those. We go from a project level to a portfolio level, to a TLB level and then to a Department level, if there are issues, understanding what happens. That sense of cost control is now real and in place, because we have the balance, and that is one of the benefits of the settlement in SR20.

The other is probably the reverse of that, in delegation. We have the Levene model, but we have reduced delegations where there have been problems. We have seen that previously with the Navy and the Defence Infrastructure Organisation. Recently, with the Treasury’s agreement, we have reinstated those delegations, but that is an element that the accounting officer can use where we see problems. We have done and we have—

Q150 **Chair:** Basically, you humiliate one arm of the armed forces.

Charlie Pate: We put in the extra support that is required to drive the change that we need to see.

Q151 **Chair:** Sorry, the stick is that you humiliate them by taking away their power to decide.

David Williams: I was just going to add that, alongside the process points that Mr Pate sets out, I would be happy to bring any recalcitrant TLB holders to a hearing of this Committee, should you so wish.

Q152 **Chair:** That has whetted our appetite. We are going to go away and look at options on that. That is one element of that, and then you have to incentivise them. Mr Williams, we talked to you previously about a whistleblower issue, which was in private session. You have talked about changing the culture. What Mr Pate says, if we read it positively, is that there was a change of attitude, but is that really embedded? Do you now have that culture? You probably do not have it yet, but are you confident that you will get that culture, where people down the line can call out and say, "There is a problem here. There is waste here. There is a problem with this", and put it to the person who is going to be able to make a decision?

David Williams: We are making some progress. We know the kind of improvements that we need to make, but cultural and behavioural change is not quick. There are some particular challenges within the uniform chain of command about how you raise concerns, but even if I just think about the people survey results for the Department from last autumn, 10% of our staff said that they have been subject to or witnessed bullying, harassment or discrimination. It is not the highest in Whitehall but it is up one percentage point from the previous year in the MoD. As you dig into it, you get measures of how confident people feel about raising complaints or how confident they are that constructive action will be taken if those complaints are made. This is not a quick fix, but the Committee has my commitment that it is a matter of personal priority for me.

Chair: I am glad to hear that, because the Ajax review may throw up, to put it politely, some very useful lessons at the very least about how to embed that culture more effectively. We look forward to seeing that. Can I thank you very much indeed for your time? The transcript of this session will be put up on the website, thanks to our colleagues at Hansard, uncorrected in the next couple of days. We will be producing a Report on this but, given where we are at, it probably will not be before the Easter break, but we will let you know when that is. Thank you for your time.