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PERMANENT SECRETARY

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15th October 2020

Meg Hillier MP
Chair of the PAC
Sent electronically

Dear Chair,

DELIVERING THE QUEEN ELIZABETH CLASS AIRCRAFT CARRIER PROGRAMME

It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start or vary major projects, and then assess whether they measure up to the standards set out in *Managing Public Money*. From April 2017, the government has committed to make a summary of the key points from these assessments available to Parliament when an Accounting Officer has agreed an assessment of projects within the Government's Major Projects Portfolio.

The Queen Elizabeth Class Aircraft Carrier is part of this portfolio and an Accounting Officer assessment has been prompted by the submission of a Review Note that seeks an uplift to the approved budgetary limit to address emergent cost growth being reported by industry in their estimates to complete the programme.

Background

The Queen Elizabeth Class Aircraft Carrier Programme is delivering Carrier Strike capability in accordance with stated Strategic Defence and Security Review outcomes and Defence Objectives.

This programme is in the final stages of build and this assessment is associated with the Review Note (NAVY/ACNS/A&C/IAC/4957 dated 30 April 2019) seeking an uplift to programme cost approval of £44M.

This uplift will take overall cost approval to £6,405M and represents a 0.7% increase from the previous approval in August 2018 and a 3% increase from the re-baselining of the programme in 2013/14.

The 0.7% cost increase over the previous approval and 3% increase since the re-baselined position represented VFM, as it aimed to deliver the programme on schedule, and maximum resource was applied to complete the ships on time. A lesser effort at critical times would have resulted in delayed delivery. In this outcome the "engineering" cost would have been the same, but we would have incurred significant additional cost associated with infrastructure at Rosyth had the ships remained at Rosyth for longer.

The first of class (HMS QUEEN ELIZABETH – QNLZ) achieved entry in to service in February 2018 and the second and final ship (HMS PRINCE OF WALES – PWLS) is expected to enter

service in March 2020. These dates are unaffected by the Review Note associated with this assessment.

Assessment against AO Standards:

The following summarised assessment against the AO standards is offered:

- a. **Regularity.** The QEC Build and Delivery programme is wholly consistent with Defence Objectives and there are no current commercial or legal impediments to completion of the programme. The programme is affordable within the Navy Command Portfolio.
- b. **Propriety.** The MOD is contractually committed to the programme with scheduled completion in June 2020.
- c. **Value for Money.** Completion of the programme through the prime contract with the Aircraft Carrier Alliance remains the optimal and most cost-effective route and this assertion has been validated by Cost Assurance and Analysis Service (CAAS) subject matter experts.
- d. **Deliverability.** The deliverability of the capability and completion of the programme has already been demonstrated by the successful testing and trials undertaken on the first of class (QNLZ) with lessons learnt carried being applied to the second and final ship (PWLS).

Conclusion

As the MOD Accounting Officer, I considered this assessment of the Queen Elizabeth Aircraft Carrier programme and approved it on 18 Jun 2019.

At the time I concluded that publication of this assessment summary should be delayed pending formal amendment of the prime contract to reflect the agreement reached in principle with ACA IPs to take a greater share of painshare for costs not deemed fair and reasonable by MOD. This took longer than originally anticipated to complete due to the need to re-engage with multiple stakeholders complicated by the impacts of Covid 19.

I have prepared this summary to set out the key points which informed my decision. If any of these factors change materially during the lifetime of this programme, I undertake to prepare a revised summary, setting out my assessment of those factors.

This summary will, when appropriate, be published on the government's website ([HYPERLINK "http://www.gov.uk"](http://www.gov.uk)). Copies will be deposited in the library of the House of Commons and sent to the Comptroller and Auditor General and Treasury Officer of Accounts.

Yours sincerely,



STEPHEN LOVEGROVE