



House of Commons
Defence Committee

**It is broke — and it's
time to fix it: The UK's
defence procurement
system: Government
response to the
Committee's Ninth
report of Session 2022-
23**

**Eighth Special Report of Session
2022–23**

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The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

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Eighth Special Report

The Defence Committee published its Ninth Report of Session 2022–23 [It is broke — and it's time to fix it: The UK's defence procurement system](#) (HC 1099) on 16 July 2023. The Government's response was received on 15 September 2023 and is appended below.

Appendix 1: Government Response

The Ministry of Defence would like to thank the House of Commons Defence Sub-Committee for the comprehensive report of its inquiry into Defence Equipment & Support (DE&S) and for its observations and recommendations on the wider defence acquisition system. We are grateful to committee members for taking the time to visit DE&S to see at first hand the work being done both to deliver current programmes and to drive improvement into the future, and hope they will have the opportunity to visit again in the future. In the government's response to the report, we aim to show how in many areas we have already recognised the challenges identified and have work in hand to address them.

As the Committee is aware, Defence delivers some of the most complex programmes across government, including over a fifth of the programmes in the Government Major Projects Portfolio. As we set out in evidence to the inquiry, overall our delivery performance is good and improving, with the majority of programmes delivered by DE&S being ahead of or on target for expected performance. Our project data shows that over the two-year period to December 2022 the average time to front-line delivery reduced by one year across the wider MOD portfolio. Our success in delivering to the front line with pace and agility when required is demonstrated by the role played by UK Defence in equipping the Ukrainians to defend their nation against an illegal invasion, with DE&S managing a 20% increase in output requirements last year alone as a result of the changing threat.

We must build on our successes and go further. We agree with the Committee about the need for a still greater premium to be placed on time to delivery. This is a key theme of the Defence Command Paper which sets out our ambition to significantly reduce the time taken to get equipment into the hands of the front line.

Our acquisition reform approach recognises the systemic nature of many of the challenges we face and seeks to address them through practical interventions to make sustained and lasting change. Getting our programmes off to the best possible start is key. We are focussed on setting them up for success with strategic alignment around what is expected and the resources they need, and early expert advice in areas such as cost estimating and science and technology. Earlier engagement with industry is an important aspect of this and the Command Paper recognises that we must work with industry from the outset to shape capability outcomes that exploit innovative solutions and make the most of what the market can offer.

Internally, continuing to increase professionalism across our project delivery cadre is a critical enabler; our initial focus is on those leading our programmes through Major Projects Leadership Academy training, which is already a requirement for our major project Senior Responsible Owners (SROs), and roll out of Infrastructure and Projects

Authority accreditation. To enable and empower our SROs to deliver at pace we are embedding proportionate, risk-based approaches which speed up decision making, reduce duplication and improve overall delivery. An increased focus on ‘spiral’ or iterative delivery is likely to mean, for example, accepting an 80% solution now, and developing it into the future. We need to carefully balance driving pace with taking risk, instilling this behaviour at the heart of our culture whilst learning lessons from past experience.

We are already on that journey and are determined to build on existing good practice, learn from experience and drive the necessary changes to ensure defence acquisition is set up for success.

1. Conclusion: The Ministry of Defence must finally admit, once and for all, that there is a real problem across UK defence procurement: the current system is indeed broken and multiple, successive reviews have not yet fixed it. With a major war now under way in Ukraine, now is the time to act.

The Department does not agree with the characterisation of a broken system: our response to events in Ukraine demonstrates our ability to deliver. However, we do accept the need for reform to ensure the acquisition system is fit for purpose to enable us deliver on our Command Paper commitments.

Many of the challenges we face are systemic. Therefore, work to improve acquisition and procurement must be supported by change to the broader Defence system and operating model. That is why, in Spring 2023, Ministers directed an end-to-end review and redesign of the Defence Operating Model; this commission is overseen by the Defence Executive Committee. This will build upon and enable change already underway across Defence. It expands upon the scope of the DE&S Operating Model Optimisation to improve how we deliver outcomes from end-to-end, setting a clear direction for Defence as an integrated system and ensuring our processes, structures, and culture support these reforms.

2. Recommendation: *We agree with Clive Sheldon KC that all personnel working on a programme should escalate safety concerns where there are ‘seeds of doubt’ about a matter, even if not fully evidenced, but would go further. We recommend that the Army’s safety system should now be subject to a rigorous overhaul, incorporating the detailed lessons already learned and evidenced within the Sheldon Review, with the aim of redesigning the Army’s safety system in a timely manner, into one which is genuinely fit for purpose in the 21st century.*

The Department thanks the Committee for their continued interest in the Armoured Cavalry programme. Whilst the Sheldon review focused on a particular period in the life of Ajax, it provided a stark reminder of the importance of robust safety management. I attach a breakdown of our response to the recommendations. The review followed the December 2021 independent MOD report by David King, our then-Director of Health and Safety, who looked specifically at the health and safety concerns around noise and vibration in the Ajax vehicle. We continue to make good progress implementing the recommendations related to the Army safety system from that report and, in fact, have gone further. In line with the Department’s existing vision to champion safety in Defence, the Army had already recognised where the system did not work effectively and has been actively addressing areas for improvement; including re-configuring its safety system to include more transparency and assurance throughout.

Initiatives include the formation last year of a dedicated Army Capability Safety Group whose mission is to bring greater expertise, agency and assurance into Army capability safety; working closely with Defence, Equipment & Support, the Directorate of Defence Safety in MOD Head Office and the Defence Safety Authority. The formation of this group, and also of the MOD Acquisition Safety Cell in the Directorate of Defence Safety (which issued a new Joint Service Publication on Acquisition Safety Policy in July 2023), mean that there is already now far more focus on safety as part of procurement than ever before. Further work has also commenced to modernise the Army safety construct. Under new 1* leadership, the Army Safety Group will bring together critical safety functions to provide a coordinated safety system and build a world-class safety culture. Reporting directly to a 3*, this organisation will benefit from a highly focussed level of scrutiny and governance to ensure it delivers what the Army needs.

Additionally, the Department's Standards of Conduct and Behaviour Policy sets out a commitment to ensuring concerns are addressed and resolved at the right level and as quickly and effectively as possible. Alongside the Department's whistle-blowing process, which allows individuals to raise issues outside their chain of command, guidance will be issued to ensure briefing provides a balanced view as part of creating an environment where diverse views are heard and listened to. The Department published a report on Psychological Safety in defence projects in July 2022. We are learning from this work to build and sustain psychologically safe environments where issues impacting on delivery are raised and dealt with early. We are testing and promoting mechanisms to support teams in addressing issues of psychological safety. For example, the Army recently focused the Whole Force on the meaning and importance of Psychological Safety and providing Challenge as part of effective and professional continual learning in the All Stop Day 23 (8 February 2023). Throughout the day team-level groups engaged in facilitated sessions on Psychological Safety and Challenge, supported by multiple additional resources. This work has been continued as individual teams throughout the Army are proactively continuing to explore these concepts and practice the behaviours involved. An Army wide Organisational Culture programme called TEAMWORK will further embed Psychological Safety, Challenge and Continual Learning over the next five year period (2023-2028).

3. **Conclusion and Recommendation: The culture within the Ministry of Defence, Defence Equipment and Support (DE&S), and the Front-Line Commands is often one of misplaced optimism when assessing project cost and schedule. The current standard confidence measure used throughout DE&S is P50, meaning that an estimate of cost or schedule is as equally likely to be wrong as it is right. DE&S should move from P50 confidence measures to P75, thereby ensuring much greater realism in project forecasting, at all levels.**

4. **Conclusion: By increasing P50 to P75, the procurement system would switch to estimates which are three times less likely to be exceeded than not—as opposed to equally likely to be exceeded as not, at present.**

5. **Recommendation: It would however be iniquitous to impose this much greater discipline in forecasting for equipment procurement just on DE&S. The new P75 benchmark for both cost and schedule estimates should also be extended across the wider procurement system, including the Front-Line Commands (FLCs); the Joint**

Requirements Oversight Committee (JROC); the Investment Approvals Committee (IAC); and the Performance Management Reporting System (PMRS) which provides regular briefings to Ministers.

We agree with the Sub-Committee that there is a strong argument for use of higher probability figures for schedule approval for complex programmes and, building on the recommendations from the Sheldon Report, have issued guidance which makes P70 the norm on schedule for those programmes on the Government Major Projects Portfolio. The Department already requires investment decisions to be presented for approval with cost and schedule modelled at P10, P50 and P90, which is consistent with HM Treasury Green Book guidance. The Department's standard approach is to approve financial investment decisions against P50, which reflects the portfolio effects of financial cases, but we already recognise that different activity merits different confidence levels, dependent on the risk and complexity in a programme. SROs can put forward arguments recommending why their programme should be approved at a different confidence level for both cost and schedule. We have approved some of our most complex programmes such as Dreadnought and nuclear infrastructure to deliver against P70, and where appropriate, for our most complex programmes the Department holds additional cost risk contingency above P50 at both portfolio and Departmental level which it manages on a case-by-case basis.

However, optimism bias in cost estimating is a recognised issue for major programmes generally, not just those delivered by Defence. To improve our approach, learning from best practice in industry, we commissioned an external panel of experts to provide us with advice. They recommended that the Department should improve early cost estimating and the management of financial risk and contingency to recognise the uncertainty when programmes maturity is low.

The Department's Cost Assurance and Analysis Service (CAAS) is leading work to look at an improved approach to how we manage both costs and time risk for programmes, including the management of risk at a portfolio level where this is appropriate. This work is drawing on external insights on our approach to cost estimating and cost control and is due to provide the department with practical proposals to consider for implementation in Financial Year 2024/25. Careful consideration is being taken to not drive wrong behaviours through changes to approvals. It should be noted that approval at higher a P value will not improve project performance, it only provides a greater level of contingency. We need to understand the rigour behind the estimate. This work will embed into Business As Usual the fundamental elements of estimating required to allow decision makers to make an informed 'risk appetite' decision at Strategic Outline Case and links into ongoing work on the greater use of capability portfolios to drive faster adoption of new technology and innovative solutions while streamlining approvals and working more closely with industry.

6. Conclusion: DE&S does not allocate enough resource to legal and commercial talent. DE&S should have a greater appetite for, and access to, use of external specialist contract lawyers to support its work. We believe this would be money well spent to ensure that costly programmes (especially category A programmes) do not experience costly contractual disputes later in their life, to the taxpayer's disadvantage.

We recognise the need for DE&S to have access to good quality legal and commercial advice, although we would also stress that the Department views expenditure on external

assistance as an area where financial control is desirable. That said, specialist external help will be required from time to time, and indeed DE&S already have access to such assistance if required.

Rather than over-emphasising the use of external consultancy, recruitment and retention of high quality commercial staff is a priority across the Department and there are a number of initiatives to fill our current vacancies. These emphasise continual professional development and making Defence a great place to work.

We are also constantly striving to improve our existing team's skills. Within DE&S the commercial staff make up 8.5% of the overall civilian and military population, representing under half of the commercial population across the MOD. The commercial function have a training and development programme that is consistent across the Department, providing a balance between professional qualifications (Member of the Chartered Institute of Procurement and Supply) with in-house courses developed around Defence-specific ways of working. These in-house courses are regularly reviewed to ensure they meet existing and emerging skills requirements. All commercial officers are required to meet industry best practice standards through the CIPS professional qualification, relevant experience and (for senior commercial officers) through meeting the standards of the Government Commercial Organisation's Assessment and Development Centre; these being a prerequisite to achieving a formal licence and delegation through the Defence delegation chain headed by DG Commercial.

More broadly, DE&S are also focusing on improving the contract management skills of non-commercial staff in the project delivery teams. For example, DE&S have supported staff to achieve the foundation level accreditation of the Government Commercial Organisation's Contract Management Capability Programme and are continuing to encourage the uptake at the practitioner and expert levels.

7. Recommendation: *Given the very high importance of the role, the Prime Minister, who is ultimately responsible for Ministerial appointments, should be strongly encouraged to promote greater stability in the procurement system, with MinDP in future serving for at least the bulk of a Parliament.*

The Ministry of Defence has ensured No 10 are aware of this recommendation.

8. Recommendation: *Given that equipment purchasing and support now accounts for almost half of the entire defence budget, our main Committee now intends to hold at least two formal 'Acquisition hearings' each year, to scrutinise major procurement programmes in detail and the Ministry of Defence should provide access to all relevant information (if necessary at a classified level) in order to facilitate this.*

Further scrutiny of our major programmes is welcomed by the Committee and Public Accounts Committee. As the Committee will recognise from previous engagement, it may be necessary to hold some of these meetings in private for national security reasons which may also impact publication of evidence. We will work with the Committee clerks to understand likely information requirements and agree how best to meet that ask.

9. Recommendation: *The Ministry of Defence and DE&S should engage in more consistent dialogue with industry. This should include a formalised pre-procurement stage (at appropriate classification levels) regarding future requirements and their feasibility.*

We agree, and have been implementing changes to this effect over the last 12 months. Work is already underway across Defence to reform, with the most robust review of the end-to-end acquisition system for a decade. Continuing to improve the relationship with Industry is pivotal to that, as is their current and ongoing engagement in that process. The DE&S Strategy and the Defence Design work are both targeting a more formal role for DE&S in shaping requirements to deliver the exportability, spiral capability development and associated scale and efficiency in Industry. This was identified by CEO DE&S early in his tenure and was reflected as themes in the Committee's Inquiry. This will enable a greater weighting on these factors and again Industry is engaged in shaping this work. DCDS Mil Cap engages quarterly with Industry and CEO DE&S, Director Military Capability, Dstl and Industry have been holding classified meetings to share appropriate threat information and enable earlier input from Industry on requirements.

The Defence Suppliers Forum (DSF), which is chaired by either the Secretary of State for Defence or the Minister for Defence Procurement, is the primary forum for strategic engagement between the MOD and industry collectively. Since 2019, it has expanded, with around 80 companies including 30 SMEs, as well as three trade associations, now regularly contributing to discussions at different levels. This will re-set the DSF objectives, and a subsequent updating of the structure will ensure alignment with the Defence Command Paper, and, through the Industry Collaboration post, greater alignment with Strategic Partnering Programme. Work is also underway to reinvigorate the Defence Growth Partnership regarding exports, as well as a review of the Defence Suppliers Forum.

In response to the need for a professionalised supply chain capability across the Defence enterprise we are launching the Defence Supply Chain Capability Programme. We will drive

improvements including initial design and architecture of supply chains during early Force Development to deliver robust and resilient Supply Chains, working with delivery and capability teams as well as Industry and targeting access to supply chain data and systems to provision intelligence that can be used to predictively mitigate supply chain impacts. Building on the successful work of the Strategic Partnering Programme, we are increasing capability through a dedicated role focussed on Industry Collaboration.

10. Recommendation: *The Ministry of Defence should put forward a plan on how it intends to help develop and foster the defence workforce over the next 10 years, including what plans it has to increase the availability and uptake of apprenticeships within the defence industry.*

We agree that ensuring the right mix of skills across the defence sector is critical to creating and sustaining the sort of vibrant, innovative and competitive industrial base we want to have in the UK. As mentioned in the Defence Command Paper Refresh (DCPR), Defence currently offers 100 apprenticeship schemes in Defence, with over 20,000 apprentices under training. In addition, the latest JEDHub report shows that in 2021 25% of new hires in the surveyed companies were graduate trainees and apprentices.

Building on this, the MOD and industry are working together to nurture and develop relevant skills in the sectors, including through sharing expertise, making it easier for people to move between government and industry, and greater outreach by national security departments to identify and attract potential talent. Additionally, the application of the Social Value Model to MOD's competitive procurements incentivises suppliers to propose additional Social Value benefits as a result of MOD spending, which may include increasing apprenticeships.

The Defence Suppliers' Forum (DSF) is providing an empowered network across the Defence Enterprise to address sector-wide issues, including recruiting and retention challenges. The DSF People and Skills Working Group is working to identify and address the skills gap within the UK defence sector around STEM (Science, Technology, Engineering and Maths) related skills. There is ongoing engagement with academia to develop a sustained partnership based around a clear demand signal enabling higher and further education to deliver the skills needed. Work, such as the development of a Diversity & Inclusion Covenant, is being undertaken to encourage greater diversity in the defence technical workforce and to aid retention of those already working in the sector. The Working Group also endeavours to reflect and promote the positive attraction of careers within the sector to under-represented communities.

The DCPR identified skills as a priority area over the next three years and communicates what Defence is doing to develop and foster its workforce over the next 10 years, including addressing our most critical skills shortfalls, particularly in digital and STEM, nuclear, space, and cyber. As we do so we will continue to work closely across Government, and with industry and academia, to ensure that we are growing those skills nationally.

11. Recommendation: ***The Ministry of Defence and the Treasury should provide a much clearer definition of 'social value' in defence contracting and specify to bidders how these criteria will be applied in procurement competitions.***

The Public Procurement Notice (PPN) 06/20, 'taking account of social value in the award of central government contracts' introduced the use of the Cabinet Office Social Value Model (the Model) across all central government procurements and sets how Social Value is to be evaluated in competitive procurements. The Model provides a clear definition of Social Value and how it is to be applied.

Since adopting the Model, the MOD has generated a Commercial Policy Statement (CPS) which provides guidance to its Delivery Teams on how to implement the Model, and how it is to be applied to obtaining central government works, goods, or services, including which of the five Social Value Themes are a priority for Defence. Individual procurements set out the specific detail in their Tender documents, which social value award criteria are being assessed, the percentage weighting given to each criterion, and the how these will be scored, in accordance with the Model and CPS. This CPS is available to suppliers through the MOD's commercial toolkit.

Since Jan 2021, c.250 MOD contracts have been awarded that include Social Value. Supplier feedback suggests that the MOD is more advanced in its implementation than other central government departments. Most notable, the MOD has good levels of engagement with our supplier base via a dedicated Social Value working group, under the DSF, created for the express purpose of sharing constructive feedback and working collectively as appropriate

on areas to improve implementation. Suppliers are encouraged to make use of this forum as the best route to address issues and concerns in the first instance. Embedding Social Value will take time and collaborating in this way helps buyers and suppliers alike to learn lessons and continue to improve its effectiveness. We provide updates to Cabinet Office on DSF issues and feedback where appropriate.

12. Recommendation: ***The Front-Line Commands and DE&S should aim for a ‘spiral development’ model as a default. This should be enforced through the Joint Requirements Oversight Committee, the Investment Approvals Committee, and ultimately, Ministers.***

The Department agrees that more iterative or ‘spiral’ development of capability is needed, and the Defence Command Paper 2023 sets out the intent to bring greater agility into our acquisition system to enable this. The ability to adapt rapidly to a changing environment to maintain strategic advantage is a key theme of acquisition reform. Some of our programmes already successfully adopt a “spiral” approach, delivering an initial solution then iterating based on user experience, evolving threats and technology opportunities. We are looking at what we can learn from their experience and share more widely, and also where we need to adapt our processes to better support this approach.

We are looking at where there is scope to deliver an effective 80% capability solution to the front line more quickly, which can then be iterated on the basis of user experience. We are also asking programmes to consider whether an off the shelf option is available that would meet the requirement sooner, although the impact on factors such as sovereign industrial capability will also need to be taken into account and the right balance struck.

The Department is also considering a different way of managing military capability through capability portfolios, to drive faster adoption of new technology and innovative solutions while streamlining approvals and working more closely with industry.

Following publication of the Defence and Security Industrial Strategy in 2021 we are also ensuring that industrial implications and exportability are considered early in capability development and investment scrutiny processes, with the MOD’s Director General of Industry, Trade & Economic Security sitting on the Joint Requirements Oversight Committee and Investment Approvals Committee.

13. Recommendation: ***As in the French system, DE&S should be involved at the outset of formulating requirements and disputes should be resolved, if necessary, by Ministers.***

Through our pan-Defence acquisition reform activity, we are already looking at how all our enabling organisations can engage with their customers to set programmes up for success. Work is underway within DE&S to consider the end-to-end Operating Model, as well as how DE&S will better support the Military Commands in the development of their requirements.

This includes the development of a “Gateway” function which will bring in specialists and intelligence to help the Commands to understand what’s possible to meet their need right at the start of the procurement cycle. This will involve thinking about our military capabilities as a system rather than just equipment, and then going to market with a strategy that delivers a much better solution for the people on the front line and makes our job delivering that much easier. To achieve this, DE&S aims to involve our partners from across industry and international allies to better understand technological developments,

industrial capability, the market, international opportunities and partnerships. As part of the DE&S Operating Model work DE&S is working to create a much closer connection with the Military Commands, industry, international partners and the rest of the MOD to ensure that DE&S, as the enabling organisation, is asked better questions and can provide better answers in return.

Officials will always seek to ensure there is no requirement for ministers to act as arbiters in cases where there is a dispute between different parts of Defence on the best way forward. However, there is already a process in place to allow this, should it be necessary.

14. Conclusion: **The current procurement system does not place sufficient emphasis on the value of time. Indeed, as the Permanent Under Secretary (PUS) himself said in summarising the problems with the system: “we should place more value on time and less on money, so [on] the pace of decision-making and pace of delivery.” We strongly concur with PUS’ emphasis on the value of time.**

15. Recommendation: *The Ministry of Defence must develop a much greater sense of urgency in its procurement methodologies. At present, the system is far too ponderous and bureaucratic. There must be a much greater emphasis and value on time. The Ministry of Defence should make greater use of the Urgent Capability Requirements (UCR) method in getting the UK Armed Forces prepared for the immediate future and potential near-term conflicts with peer adversaries.*

16. Recommendation: *The Ministry of Defence, the Front-Line Commands—and DE&S in particular—should adopt a ‘UCR mindset’ which seeks to deliver equipment with much less bureaucracy in a far timelier manner and with a greater emphasis on early operational benefit.*

17. Recommendation: *In the longer term, the Ministry of Defence and DE&S should also review whether the standard processes avoided by use of the UCR method could be removed altogether from all defence procurements.*

The Department fully agrees on the need for an increased emphasis on time in our procurement cycle. This is a central theme of the DCPR which sets out maximum time commitments for delivery of programmes.

The UCR procurement process responds rapidly to unforeseen threats, mission critical operational risk, or to essential safety requirements that pose an intolerable risk to life. Given the urgency and unique nature of these requirements our core acquisition processes are streamlined to enable swift action, balanced with appropriate oversight. In these circumstances we accept that risk may be taken against performance, cost, or coherence with wider Defence equipment and activity programmes. It would therefore not be desirable to use a UCR approach across the whole of the defence portfolio.

However, to drive pace in delivery across the Defence portfolio we are encouraging active consideration of the level of ‘appropriate risk’ that can be taken in our procurement processes, recognising that we need to balance the potential consequences of increasing our risk appetite with the need to deliver capability more quickly.

We are also learning from the experience of rapid procurement for Ukraine and where factors such as greater strategic alignment, clear prioritisation, and a better understanding of risk tolerance can drive increased pace in delivery.

As set out in response to Recommendation 12, the Department's increased emphasis on pace also includes greater use of 'spiral' or iterative delivery approaches. In addition, as part of its acquisition reform agenda the Department is implementing a range of interventions to streamline investment decision making and delay our processes. Through our work to streamlining the approvals process we are using proportionate approaches based on the risk and complexity of each programme to set our programmes up for success from the very beginning.

18. Recommendation: *The Ministry of Defence should ensure that it is using the funding flexibilities offered by HM Treasury to the full extent necessary, such as through Budget Exchange mechanisms. If this remains insufficient, it should explore with Treasury what additional flexibilities may be permitted to ensure that major procurement programmes can be managed much more efficiently in the future. In short, the obsession with annuality has to change.*

The Department is fully utilising the flexibilities provided in the Consolidated Budgeting Guidance for end of year budget exchange. This has been made possible by the improvements in cost forecasting and the evidence provided by the delivery agents to make confident budget flex decisions. Budget exchange values agreed through the parliamentary estimates process to date in this Spending Review period are set out in Table 1 below:

£m	FY21/22	FY22/23	FY23/24	FY24/25
Total Budget Exchange	-488	-264	604	148

As part of the Department's internal in-year financial management, we take a programmatic approach where we actively manage areas of underspend by bringing forward projects to meet budgetary controls. As part of the 2023 Spring Budget, the Department was given new controls and freedoms in this Spending Review period to manage the defence nuclear enterprise. This includes further flexibilities of budget exchange to move funding within our ringfenced nuclear programmes across the Spending Review period to ensure they are not delayed due to budget annuality. The Department will explore the possibilities of extending these provisions into the next Spending Review period, as well as potentially widening them to other areas of the Equipment Plan.

19. Recommendation: *The Ministry of Defence should take, if necessary, a more robust attitude towards its contractors if programmes get into serious difficulty. Allied to this, Ministers should be prepared to cancel programmes that are obviously failing, rather than exercising constant 'optimism bias' to the detriment of the UK taxpayer.*

For procurements within its scope, the Procurement Bill has increased the ability for the MOD to exclude suppliers from bidding due to poor performance of existing

contracts. Suppliers can be excluded from procurements for sufficiently serious breaches of contract, such as termination or where the Department is seeking damages, and where a supplier has not performed a contract to the MOD's satisfaction and has failed to improve performance when given the opportunity to do so.

20. Conclusion and Recommendation: **Accountability and responsibility are not aligned.** As Clive Sheldon KC noted, the Senior Responsible Owner (SRO) for a programme often lacks the levers to take or even influence decisions for which they are accountable. It is right that the SRO sits within the Front-Line Command due to the multifaceted nature of integrating new equipment. However, *SROs should be given significantly more powers to affect change within a programme, including greater budgetary and commercial control over their DE&S counterparts.*

21. Recommendation: *In addition, in order to better align accountability (including to Parliament) with responsibility, SROs, who are often at one or two star level, should be able to exercise direct access to the CEO of DE&S (and if necessary to the Minister for Defence Procurement) in the event of a programme for which they are responsible experiencing serious difficulties, which they are unable to resolve on their own.*

SROs for projects in the Government Major Project Portfolio are directly accountable to the Permanent Secretary (the Departmental accounting officer) or to the relevant Additional Accounting Office for delivery of their programme. In addition, oversight is provided by the appropriate budget holder (for example, the Service Chief) whose outputs the programme will support. These accountabilities are set out in the SRO's letter of appointment.

If SROs are experiencing serious difficulties, they are already able to use escalation routes including to the appropriate Minister. Furthermore, the Defence Major Projects Portfolio Sponsor Group routinely provides both support and challenge to SROs through reviews of programme performance and intervenes when it is appropriate to do so. We have also recently introduced 'fireside chats', which are informal discussions between our GMPP SROs and the relevant Accounting Officer which provide an opportunity for direct escalation if needed.

However, the Department recognises the need to clarify internal accountabilities and ensure SROs remain empowered to deliver their programmes. The alignment of accountability and responsibility is one of the areas to be addressed as part of the wider review of the Defence Operating Model now underway, building on work already in train as part of our acquisition reform agenda.

22. Recommendation: *The Ministry of Defence should endeavour to keep SROs in post for a minimum of five years to ensure continuity. Whilst it may not be possible to mandate the length of the position, the Ministry of Defence should provide incentives to reward length of service e.g. through remuneration packages and subsequent promotion. The Ministry of Defence should also ensure that SROs for category A programmes (i.e. those over £400 million) should have 100% of their time doing that specific job, as opposed to balancing a number of programmes or other roles in one appointment.*

The Department agrees with the Committee on the importance of continuity of programme leadership. Letters of appointment for major project SROs already set an expectation that SROs will stay in post for a minimum period, linked to key milestones.

Whilst there is no formal mechanism to keep an individual in post for five years if they wish to leave, we continue to explore how we can maximise the use of available levers to retain

SROs in post for as long as we can. These include performance pay based on achievement of milestones, and pivotal role allowances to recognise expertise and to incentivise longer tenure. We already have systems in place for military officers to remain in post for longer and still be promoted, and we will look to make more use of this where it is appropriate to do so without negatively impacting on career structures elsewhere. We are also starting work to improve talent management and succession planning for our senior project leaders, to support continuity of leadership and identification of suitable candidates for key roles.

In line with Infrastructure and Projects Authority guidance, the Department sets a requirement for a minimum 50% time commitment for all major programme SROs. Four in five of our major Programme SROs were meeting this requirement as at June 2023, and we expect this upward trajectory to continue.

While for the most complex programmes, a full time SRO may be needed, the appropriate SRO time commitment for individual programmes will vary according to the nature of the programme. In some cases, it makes sense for a number of related projects to be managed together under a single SRO. This is with the agreement of the Permanent Secretary and the Chief Executive of the Infrastructure and Projects Authority.

23. Recommendation: *The Ministry of Defence should develop a professional career path within the military that enables Officers to specialise in procurement, as a dedicated cadre, at a much earlier stage of their career. If the Ministry of Defence is unable to ensure that military personnel are forthcoming to take on SRO roles, it should consider the greater use of civilian SROs in the long term.*

The Department agrees that military personnel should be supported to develop careers in acquisition. The Project Delivery function is working closely with the single Services to professionalise Project Delivery in the military and enable service personnel to develop acquisition careers and build the necessary skills and experience to lead our major programmes. The single Services' Principal People Officers are working to identify those personnel in project delivery roles and ensure consistency with the Infrastructure and Project Authority's Project Delivery Capability Framework.

We have a mix of military and civilian SROs leading our programmes. SROs are selected on the basis of their skills and experience with the emphasis on finding the right person for each role. We have set out in the Defence Command Paper our drive for greater professionalisation and Infrastructure and Projects Authority accreditation across the programme leadership cadre, whether civilian or military.

24. Recommendation: *In furthering clear accountability, the CEO of DE&S should become the accounting officer to Parliament for the overall budget for procuring and maintaining equipment. This responsibility currently sits with the MoD Permanent Secretary, who should remain accounting officer for all other matters.*

25. Recommendation: *In a reversion to past practice, the CEO of DE&S (who would now be responsible for spending approximately half of the Department's budget) should again be given a seat on the Defence Board, chaired by the Secretary of State.*

Building on work already underway across the Department, including the DE&S Operating Model Optimisation work and Acquisition Reform, Defence Design will review and address how well our overall operating model is functioning.

Following direction from Ministers, Defence Design was commissioned by the MOD Executive Committee in Spring 2023 in response to the unprecedented rate of change Defence faces, as identified in the Integrated Review Refresh and the Defence Command Paper Review. A review of the Levene Framework was a condition set by HM Treasury in the Spring 2023 Settlement Letter.

Defence Design is an enterprise-wide review of the Defence Operating Model which provides an opportunity to set out how each part of the Department should operate as an integrated system. Led and directed by the MOD Executive, Defence Design employs a collaborative approach, engaging experts and colleagues who 'operate the system' to develop a clear and efficient way for the department to operate and successfully achieve our outcomes. The overall programme is expected to last 18-24 months, but it will establish early pilots to deliver tangible benefits and impacts before the end of 2023.

Active consideration is already being given to putting the CEO of DE&S onto both the Defence Board and the Investment Appraisal Committee.

As part of Defence Design, work will look at whether CEO DE&S should be an Additional Accounting Officer, as the Second Permanent Secretary and Director General Nuclear already are. Any changes from the current Accounting Officer arrangements would flow from that future model. At present, PUS remains the Accounting Officer for the Military Commands and CEO DE&S is able to escalate any concerns as required.

Appendix 2: Sheldon Report Recommendations: MOD Responses

Recommendation	Response	Initial Target Implementation
<p>Recommendation 1. Information to the Centre: At an early stage following Full Business Case approval, Director General Commercial to confirm to the DMPP Sponsor Group that the commercial approach that DE&S are pursuing is consistent with what the Investment Approvals Committee, Ministers and HM Treasury have approved</p>	<p>Accepted. A mechanism will be put in place for Director General Commercial to provide confirmation that the commercial approach is consistent with that approved for the investment approval for each programme in the Defence Major Projects Portfolio shortly after each approval point. This is already the case for the current Ajax contract amendment.</p>	<p>November 2023</p>
<p>Recommendation 2. Dstl: DE&S and Dstl to work towards a more collaborative approach. Discussions should take place between DE&S and Dstl as to how Dstl can provide more effective input into DE&S's work, and how relationships and communications can be improved. This could include Dstl being provided with an explanation from DE&S as to how their advice is being acted on or not and the reasons therefore; and a greater opportunity for Dstl to provide suitable solutions for DE&S in overcoming technical difficulties. This could also include Dstl explaining to DE&S the order of priority of its concerns, where appropriate.</p>	<p>Accepted. The relationship and way of working between Dstl and DE&S is much improved since the period the report considers and this recommendation is already being addressed at multiple levels in the organisation.</p> <p>More broadly, this recommendation is consistent with the department's approach to setting programmes up for success through earlier engagement with a wider stakeholder community and with experts, including Dstl, at the beginning of a programme.</p> <p>This requirement will be factored into work on the DE&S and wider acquisition operating model.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 3. Dstl: Establishment of a formal and recognised escalation route to SRO/3* Command Acquisition Support Plan owner/3* Chief Scientific Advisor/DE&S Board where DE&S ignoring/not acting on Dstl advice on a project/ programme in a way which Dstl considers is seriously wrong as to technical/ safety/design matters</p>	<p>Accepted. Following David King's report, MOD has established an Acquisition Safety Cell to ensure the Investment Approvals Committee is aware of safety issues that may affect delivery and equipment being safe to operate. Dstl has worked with the Cell from the start.</p> <p>In addition, an escalation route is available via the MOD Chief Scientific Adviser to ensure Dstl can raise any concerns about failure to act on serious technical/safety/design issues.</p>	<p>Already in place</p>
<p>Recommendation 4. Dstl: Dstl's quarterly reports on each equipment project on which they are advising to be provided as a matter of course to the SRO</p>	<p>Accepted. Direction and guidance will be updated to make this requirement explicit.</p>	<p>Review of existing projects underway from August 2023</p>
<p>Recommendation 5. Dstl: Collaborative working and direct communication between Dstl and the Front-Line Command Customer on equipment projects to be encouraged and supported</p>	<p>Accepted. Dstl has already increased collaborative working and direct communications with Front Line Commands.</p> <p>As for Recommendation 2, this recommendation is consistent with the department's existing approach to setting programmes up for success through earlier engagement with a wider stakeholder community and with experts, including Dstl, at the beginning of a programme. Mechanisms to achieve this will be considered as part of work on the wider acquisition operating model.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 6. DLODs: Each of the DLOD leads for a major programme to be required to provide 'full, frank and timely disclosure' to the SRO of all information that is relevant to the DLOD that they are delivering; the SRO should use the Programme Board to ensure that the information is provided and should raise with the DMPP Sponsor Group if it is considered that any Delivery Agent or Enabling Organisation is not meeting the requirement</p>	<p>Accepted. Guidance will reinforce the requirement for Defence Lines Of Development leads to raise issues relating to delivery in a timely manner to SROs of DMPP programmes.</p>	<p>September 2023</p>
<p>Recommendation 7. Payment decisions: Where the decision to make payment to a manufacturer is at the discretion of DE&S, and not required by the contract, the views of DE&S as to the appropriateness of any proposed payment should be discussed beforehand with the SRO, and the SRO's views should be taken into account by DE&S before a final decision is made. Where the SRO and DE&S cannot agree, or where discretionary payments are likely to be controversial, the views of the MOD's Director General Finance must be obtained.</p>	<p>Accepted. Delegation letters will reinforce current policy regarding the appropriate escalation route via the relevant Director Resources/Finance Director to consult DG Finance as necessary where there is disagreement around payments made at the Authority's discretion.</p>	<p>Already in place.</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 8. SRO resources: Army HQ to consider making available to the SRO resource to pay for additional (contracted) support/advice where the SRO judges this necessary to reduce risk on complex programmes. Where a request for additional resource is made, and Army HQ refuse, a written explanation of the reasons for that decision be provided to the DMPP Sponsor Group.</p>	<p>This is accepted in principle as while due consideration should always be given by Front Line Commands to requests from SROs, resources are finite.</p> <p>Where DMPP SROs have resourcing issues, they can raise these to the DMPP Sponsor Group.</p> <p>SROs in Front Line Commands can request additional support or advice through call-off arrangements, subject to appropriate approvals for expenditure.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 9. Key personnel: SRO, Programme Director, other personnel designated as such on a particular project/programme by stakeholders should (unless competency or conduct issues arise) remain in post for a minimum period of 5 years and/or linked to key milestones/dates, and change-over should be staggered insofar as possible to avoid losing key personnel at the same time. Where key personnel leave, there needs to be a structured hand-over (overseen by the SRO or their delegate; and where the personnel are engaged by DE&S, overseen by DLE or their delegate), with up-to-date analysis of programme concerns provided. Where the SRO leaves and the Infrastructure and Projects Authority have not reviewed the programme recently, this should be preceded by an Infrastructure and Projects Authority review which will inform the incoming SRO of underlying programme concerns.</p>	<p>The department accepts this recommendation in principle and recognises the impact of changes in programme leadership on delivery. Letters of appointment for major project SROs already set an expectation that SROs will stay in post for a minimum period, linked to key milestones. However, there is no contractual mechanism to keep an individual in post for 5 years if they wish to leave.</p> <p>We are therefore looking at how we can use available levers, such as performance pay based on achievement of milestones, to incentivise longer tenure. We are also improving talent management and succession planning for our senior project leaders, to support continuity of leadership and identification of suitable candidates for key roles.</p> <p>An Infrastructure and Projects Authority review may not always be appropriate, but SROs may use the call off arrangements (see response to Recommendation 8) to conduct a stock-take.</p>	<p>Already in place</p>
<p>Recommendation 10. Use of 'critical friend' facility: On the establishment of a Category A programme, the Department should appoint a 'critical friend' to support/mentor/challenge the SRO on a regular basis</p>	<p>Accepted. We are setting up an SRO buddy scheme which matches new DMPP SROs with a more experienced individual for support.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 11. Programme Board: Written reporting for the Programme Board on a [monthly/quarterly] basis (to align with the Programme Board meeting) produced by the SRO's programme team, made up of a short report from each person with responsibility for a DLOD and an overview document from the Programme Director</p>	<p>Accepted. As for Recommendation 6, we will update direction and guidance to make explicit the requirement for updates from DLOD leads to be provided for consideration by the Programme Board.</p>	<p>September 2023</p>
<p>Recommendation 12. Programme Board: Full minutes of the meeting, including detail of the essential points discussed (including any contrary views) as well as a record of any decision taken, to be produced</p>	<p>Accepted. This is consistent with good programme management practice and we will ensure this is clear in direction and guidance.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 13. Assurance follow up: A mechanism for monitoring recommendations made by assurance/scrutiny reviews to be established (led by lead scrutineer, or in their absence by Defence Portfolio and Approvals Secretariat nominee), and SRO to be challenged as to whether recommendations have been followed through and, if not, why. The SRO should also report back to the Investment Approvals Committee on progress against recommendations</p>	<p>Accepted. When approving a business case, the Approving Authority provides a formal 'Outletter' to the SRO stipulating any conditions or caveats that apply to the approval. This may include a requirement to address issues highlighted in Scrutiny Reports. The Approving Authority may be the Investment Approvals Committee or a relevant delegated authority.</p> <p>Outletter conditions are monitored for completion by the relevant Approvals Secretariat. The SRO must demonstrate that these have been addressed before seeking approval to progress the programme to the next stage.</p> <p>In addition, we will look to set a condition in the Outletter that requires the SRO to review the Scrutiny Report and liaise with the lead scrutineer to discuss recommendations that will help shape and set the programme up for success.</p> <p>More broadly, as part of Acquisition Reform, we will ensure that lessons drawn from scrutiny recommendations are embedded throughout the procurement process.</p>	<p>Already in place</p> <p>August 2023 for updated Outletter</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 14. DMPP/Scrutiny: SROs must consider themselves under a duty to be candid to the Investment Approvals Committee. Information Notes and Review Notes should give a balanced view of the programme and provide sufficient detail of problems (as well as achievements). The SRO must alert the Investment Approvals Committee promptly to any event that calls into question information provided in the Information Note or Review Note</p>	<p>Accepted. Government Project Delivery Function Guidance sets out the requirement for transparency in all areas of reporting. This guidance is specifically referenced in SRO Letters of Appointment.</p> <p>We will ensure this is also made explicit in direction and guidance on Information Notes and Review Notes.</p> <p>In addition, SROs now have the opportunity for informal meetings with the Accounting Officer which provide another forum to raise concerns beyond the normal governance mechanisms.</p>	<p>September 2023</p>
<p>Recommendation 15. DMPP/Scrutiny: More frequent (the period or trigger to be considered by the DMPP), formal, in-person update by the SRO to the DMPP Sponsor Group, thereby introducing a more proactive oversight mechanism</p>	<p>Accepted in principle. We will review the criteria by which DMPP programmes are considered for review by the DMPP Sponsor Group. In addition, as for Recommendation 14, SROs now have the opportunity for informal meetings with the Accounting Officer which provide another forum to raise concerns.</p>	<p>September 2023</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 16. What to do when hitting a “brick wall”: Where personnel working anywhere on a programme feel that they have hit a ‘brick wall’ with their line management/ chain of command in raising a concern about the programme, they should have the option of raising that concern with an individual of [1* status or above] who is external to the programme. That individual will have responsibility for listening to and, where appropriate, acting on the raised concern. This could include dealing directly with persons higher up in the line management or chain of command.</p>	<p>Accepted in principle. The department’s Standards of Conduct and Behaviour Policy sets out a commitment to ensuring concerns are addressed and resolved at the right level and as quickly and effectively as possible.</p> <p>For DMPP programmes, issues can be raised with the central portfolio team. The department has a whistle-blowing process which allows individuals to raise issues outside their chain of command.</p> <p>The department published a report on Psychological Safety in defence projects in July 2022. We are learning from this work to build and sustain a psychologically safe culture where issues impacting on delivery are raised and dealt with early. We will identify mechanisms to support teams in addressing issues of psychological safety.</p> <p>At all times we will aim to maximise involvement of staff at all levels in greater awareness around psychological safety.</p>	<p>December 2023</p>
<p>Recommendation 17. Information flow down the hierarchy: Record to be made of key decisions and dissemination of the record and reasons therefor down the hierarchy to the relevant team (whether project, programme or safety reps, including reviews at the 1*, 2* and 3* level, and meetings with industry).</p>	<p>Accepted in principle. We will make explicit in direction and guidance the need to share appropriate information with relevant teams. In some cases, given the nature of some defence projects, information may be held on a ‘need to know’ basis.</p>	<p>September 2023</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 18. Information to senior personnel at DE&S [1*-4*] and the SRO: PowerPoint and other written briefings to include at least one slide/paragraph reflecting any dissenting/contrarian opinions from personnel serving in the first and second levels below that of the person giving the briefing (and where the person giving the briefing is at 2-3* levels, from personnel serving in the relevant level 4 and above).</p>	<p>Accepted in principle. We will make explicit in direction and guidance that all briefing should include a balanced view, including dissenting views. This is consistent with our drive to create a psychologically safe environment (see Recommendation 16).</p>	<p>September 2023</p>
<p>Recommendation 19. Information up the chain of command: All formal guidance documents (and training on those documents) to include a requirement for personnel to escalate concerns for awareness, and not merely for personnel to escalate in circumstances where the individual/risk owner cannot resolve the matter themselves</p>	<p>Accepted in principle. In setting programmes up to deliver success, we will be clearer on the department's risk appetite as this will set the parameters for escalation, particularly in relation to safety. However, we expect individuals to apply their professional judgement in determining which issues to raise. We will also in our direction and guidance, and training, reinforce the requirement to share information in support of a "One Team" approach, and the creation of a psychologically safe environment where individuals feel that they can raise issues.</p>	<p>December 2023</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 20. Raising safety concerns: All personnel working in a programme should escalate safety concerns where there are 'seeds of doubt' about a matter, even if not fully evidenced, through relevant reporting lines including as appropriate within Army Programmes, DE&S, Dstl, and within the Duty Holding Construct</p>	<p>Accepted. This recommendation is aligned with the department's existing vision to champion safety in Defence.</p> <p>In addition, letters of appointment include the requirement for SROs to report issues openly and transparently.</p> <p>We will ensure this is also made explicit in direction and guidance on Information Notes and Review Notes (see Recommendation 14).</p>	<p>Already in place</p> <p>Updated guidance by September 2023</p>
<p>Recommendation 21. Information up the chain of command: Consideration should be given where significant issues arise for briefing documents to include issue, evidence, advice sought, timing of advice sought, and (where relevant) statement (with evidence) of concerns being looked at, and state whether it is raised for information only or for action. Formal training to be given on preparing and reading briefing documents.</p>	<p>Accepted in principle. The department already provides best practice guidance and templates for effective written briefing. These are available to all staff.</p> <p>The importance of effective written communication has been reinforced in a recent internal campaign.</p>	<p>Already in place</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 22. Information to the Centre: The PMRS, and submissions to Ministers, to include space for comment/opinion of dissenting or contrarian voices as to concerns/state of the project, from within the programme team. SRO to confirm within the PMRS and submissions that they have sought out these voices. SRO to be encouraged to set out difficulties and issues with the programme in the narrative of the PMRS and Ministerial submissions, along with achievements</p>	<p>Accepted in principle. Guidance on ministerial submissions emphasises the need to present a range of options, setting out the pros and cons, for consideration.</p> <p>We will update our reporting guidance to require commentary to confirm that dissenting voices have been sought out and are reflected. We will also ask SROs to confirm that their assessment has been reached through a balanced interpretation of evidence and commentaries.</p> <p>As set out in response to Recommendations 16 and 18, our work on psychological safety aims to create an environment where individuals feel safe raising concerns.</p>	<p>December 2023</p>
<p>Recommendation 23. Challenging optimism bias: Individuals involved in programmes should routinely be challenged, and challenge themselves, on this bias and how it may be affecting their decision-making and projections. This can be formalised in the information sent to the Centre [PMRS] as well as other information flows through the addition of a tick box and a comments box for the individual to explain how they considered and corrected for optimism bias</p>	<p>Accepted. All SROs of our major projects are required to undertake the Infrastructure and Projects Authority’s Major Projects Leadership Academy qualification which covers the sources of and effect of optimism bias and strategic misrepresentation on outcomes.</p> <p>We will update Programme Management Reporting System guidance to require commentary on how the SRO has considered and corrected for optimism bias.</p>	<p>October 2023</p>

Recommendation	Response	Initial Target Implementation
<p>Recommendation 24. Confidence levels: For complex programmes, the Investment Approvals Committee should consider applying a 70% confidence level for planning purposes for achieving milestone approval dates, and to provide an explanation when the 50% confidence level is applied</p>	<p>Accepted. Going forward all new complex Programmes seeking approval by the Investment Approvals Committee will be required to provide schedule and milestones for planning purposes at the 70% confidence level. The IAC will provide schedule approval at a level that is commensurate with the risk and complexity of the individual programme, which as a rule we would expect to be at 70% confidence.</p>	<p>From September 2023</p>