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PERMANENT SECRETARY

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17 December 2020

Meg Hillier MP
Chair of the Public Accounts Committee
Sent electronically

Dear Chair,

Following the PAC Hearing on 28 May 2020, which considered the National Audit Office's audit reports on Defence Capability and the Equipment Plan, I made a commitment to write to the Committee to provide an update on the following recommendations by the end of this year:

Recommendation 2: We [PAC] urge the Department and HM Treasury to consider greater flexibility to manage strategic programmes on a multi-year basis. Such an approach should be introduced cautiously, with the Department demonstrating why it should be trusted. Together they should report to the Committee by 31 December 2020 on the progress of discussions to this end.

The testing of a contingency fund for Dreadnought has proven successful and the long-term implementation of this model has been confirmed in the 2020 Spending Review. In the short term there are no plans to extend the model further, but consideration will be given to the appropriateness of the model to other parts of the nuclear enterprise in due course.

Recommendation 3: The Department should decide how it is going to measure and demonstrate progress in transforming capability in a way that optimises delivery of results without undermining budgetary controls. It should report to the Committee on measures taken to combat poor practice in programme reporting and delivery by 31 December 2020.

As outlined in the previous response, the Department continues to progress the strands of work that support the Committee's recommendation: the Acquisition and Approvals Transformation Portfolio; Project Speed; expanding the Defence related Major Projects on the government's Major Projects and Portfolio list; as well as implementing the Infrastructure and Projects Authority gateway review process. Crucially since the last update, the four-year Defence settlement announced by the Prime Minister on 19 November represents the first pillar of the Integrated Review and gives us the financial certainty we need to turn our ambitious modernisation programme into a reality. This goes

some way towards redressing the imbalance of previous underfunded reviews; but a strategic reset cannot avoid profound changes and hard decisions. It is vital that implementing the settlement is underpinned with continuing to improve budgetary processes and pursuing a radical transformation programme. Further detail will be provided on the Integrated Review in the new year, with updates on implementation in due course.

The department continually seeks to improve procurement and delivery of the capability needed by the Armed Forces. As part of the Modernising Defence Programme, an internal review of the department's end-to-end acquisition system was undertaken. This considered what changes were required to enable better delivery, and drive pace and agility so that the department is better able to exploit evolving technology.

The Acquisition and Approvals Transformation Portfolio is taking forward issues identified by the recent Acquisition Review. We have upgraded our investment decision-making approach to take better account of the complexity and risk associated with each programme. The introduction of three step approvals, with the Strategic Outline Case as a new and earlier approval point, provides upfront clarity of programme scope and understanding of key risks. We have made changes to facilitate the proportionate scrutiny of individual programmes, maintaining rigour while focusing on what matters. By setting programmes up for success from the outset and exploiting this proportionate approach we expect to improve, and where appropriate speed up, overall delivery.

As part of Project Speed, the department is continuing work to improve governance of major projects and expedite delivery. Defence expects to use this initiative to drive improvements across capability, transformation and infrastructure projects. The department will increase the number of Defence related Major Projects on the government's Major Projects and Portfolio list, providing suitable oversight from HMT and Cabinet Office to a larger number of Defence projects. The Infrastructure and Projects Authority's gateway review process will be applied to a larger number of programmes, bringing external support and challenge to project planning and reporting. HM Treasury will ensure assurance recommendations are completed before releasing additional funding.

Recommendation 4: The defence and security industrial strategy offers the Department an opportunity to reset the relationship with its key suppliers. In return for commitments to support the defence industry as part of this strategy, it should set out its expectations of how the industry will improve its performance to address the endemic delivery and quality issues that afflict the sector. The Department should write to the Committee by 31 December 2020 on what steps it has taken to enhance contractor performance.

The review of the UK's defence and security industrial strategy is considering how we can ensure the UK continues to have competitive, innovative and world-class defence and security industries that drive investment and prosperity across the Union. The review is considering the broader relationship with industry, including how we contract with suppliers. The review aims to put in place a strategy that is realistic about the state of the

market and sustains the high-level skills, technology, capacity and industrial base to support our overall defence and security policy. The review is still ongoing, and it will inform the government's Integrated Review, and as such no final decisions have been taken on this work.

In 2018, the department introduced the Strategic Partnering Programme to deliver greater value in our engagements with the Department's Strategic Suppliers. The programme is making significant progress and has incorporated 14 suppliers, supporting the delivery of operational, financial and strategic benefits. Delivery to date includes £11.2m of cashable benefits and key operational benefits around the reduction of programme/platform risk. The Programme has also helped drive collaborative behaviours in our relationships with our strategic suppliers, improving transparency and visibility of supply chain resilience throughout COVID and EU transition.

Our forward programme is focused on delivering workstreams, targeting systemic issues identified with key suppliers through the partnering programme and strategic opportunities relating to export-led prosperity and innovation.

Furthermore, through the Defence Prosperity Programme, the Department is continuing to work with industry to ensure that UK defence supply chains are leading international competitiveness and productivity. Supported by the Defence Innovation Fund, RAND Europe have been undertaking research to identify opportunities and remove barriers to increasing the benefits that the Defence Enterprise can obtain from HMG's investment in supply chain development.

Recommendation 5: The Department should set out clear metrics indicating what progress it expects to have made, and by when, against its objectives of improving the effectiveness of the reformed procurement process. It should report to the Committee on this by 31 December 2020.

As part of our work on acquisition and approvals transformation, we have set ourselves a challenging ambition to reduce by two years the average time taken to deliver capability to the front line. The portfolio of work underway is designed to drive the increased pace and precision into acquisition delivery needed to achieve this. We are closely focusing our efforts on setting new programmes up for success from the outset, where we believe we can make a real difference; the scope for changing the course of programmes already underway being more limited.

Building on work conducted last year, we are developing a robust baseline that enables measurement of progress against this ambition. We are also developing mechanisms to measure other benefits, both financial arising from the implementation of a pan-Defence Category Management approach and non-financial relating to the cultural changes which underpin our transformation activity.

I will write again to you to provide an update on recommendation 1a and recommendation 6 in the New Year following the Integrated Review announcement.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Stephen Lovegrove". The signature is fluid and cursive, with the first name "Stephen" and last name "Lovegrove" clearly distinguishable.

STEPHEN LOVEGROVE