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PERMANENT SECRETARY

D/PUS/11/7/1(158)

14 September 2021

Dame Meg Hillier, MP
Chair of the Public Accounts Committee
Sent electronically

Dear Chair,

FOLLOW UP TO 12 JULY PAC ORAL EVIDENCE SESSION: IMPROVING THE PERFORMANCE OF MAJOR EQUIPMENT CONTRACTS

At the Public Accounts Committee in July on improving the performance of major equipment contracts, I agreed to write to you in response to several questions put forward by the Committee. These responses are set out below.

In answer to questions from the Chair (Q47) the Permanent Secretary agreed to write with an expected timeline in relation to the Initial operating capability and final operating capability of the Ajax armoured vehicle.

The Minister for Defence Procurement set out a comprehensive update to Parliament in his Written Ministerial statement of 6 September (HCWS260) and subsequent oral statement on 9 September. No declaration of Initial Operating Capability will be made until solutions have been determined for the long-term resolution of the noise and vibration concerns. Work continues on both with General Dynamics heavily committed to delivering a safe resolution. Until a suitable suite of design modifications has been identified, tested and demonstrated, it is not possible to determine a realistic timescale for the introduction of Ajax vehicles into operational service with the Army. We will not accept a vehicle that is not fit for purpose.

In response to questions from the Chair and Mr Richard Holden (Qs48-52) the Permanent Secretary agreed to write with further information concerning the competitive process for tendering the Ajax contract and the extent to which it was an open competition.

The Ajax (then known as Scout SV) contract was let following full and open competition in 2010. Two bidders, BAE Systems and General Dynamics UK, were down selected for full tendering and negotiation, with General Dynamics UK being selected as the Prime Contractor. The assessment criteria were based around time (schedule), performance (user requirements, solution maturity, integration and testing, and support) and

commercial/cost considerations (terms and conditions, and investment appraisal). The outcome was subject to full scrutiny and Office of Government Commerce review.

In answer to a question from the Chair (Q78) Sir Simon Bollom agreed to write to the Committee and explain of the 4,000 contracts delivered over the past five years, what proportion have been delivered on budget.

Each year (as part of the Defence Equipment Plan) the Department publishes a Project Performance Summary Table (PPST) which provides an overview of the delivery performance on the Department's largest Equipment Procurement projects that have been approved for Demonstration and Manufacture phases. For the 29 DE&S major acquisition programmes we have reported on through the PPST since 2016 we have delivered or are on track to deliver 23 of those programmes within budget, with 6 reporting over the original approved budget.

In addition, using our Portfolio, Programme, and Project Management system, of the 394 DE&S projects currently reporting using Earned Value Management (EVM), over 80% are reporting cost and schedule within expected limits.

All contracts placed by DE&S operate within their agreed Limit of Liability (contract value), and controls within our systems mean that spend on those contracts cannot exceed the set Limit of Liability. Where projects comprise a number of separate contracts covering a range of activities, such as development, manufacture, in-service support, and specialist technical and safety services, the costs associated with these contracts are aggregated as part of the project account, the value of which is measured against the approved Business Case cost for the project.

In the event that an uplift in project expenditure is required, the associated contracts will be amended within the limits of the Business Case approved expenditure level to enable an increase in the Limit of Liability. For these reasons, DE&S assesses and manages performance against cost and time at project level rather than on the basis of individual contracts.

In answer to a question from Mr Richard Holden (Q97) the Permanent Secretary agreed to write to the Committee and set out what new capabilities the £16.5 billion extra funding will cover and if the £16.5bn would be used to support previous/existing projects as well.

The Integrated Review (IR) and Spending Review (SR) provided an opportunity to have a root and branch review of the current and planned capabilities against the threat, our policy objectives and funding available. My letter to the committee of 22nd June 2021 detailed the main changes to the previously published Equipment Plan following the IR, this includes areas where the additional funding received has been allocated to support existing projects. More detail will be available when we publish Equipment Plan 21 in the autumn. In capability terms we have allocated the additional funding received against three key areas:

- 1) the **existing shortfall** in the equipment plan (as previously reported to the Public Accounts Committee) which will enable us to deliver with confidence important capabilities already planned;
- 2) **enhancements to existing programmes** and increases in our readiness; and
- 3) entirely new and **transformative capabilities**.

Capability enhancements

Our Equipment Programme before the IR and SR represented a significant investment in the modernisation and sustainment of Defence capabilities. Through the outcomes of the IR and SR we have been able to further invest in some key areas significantly increasing their relevance to the future operating environment and to reflect the increased threats we face both now and into the future. For example, additional investment in Combat Air through advanced electronically scanned radar for Typhoon, ensuring this capability can continue to operate successfully against the most demanding of future operating environments. We will also be procuring more 5th generation Lightning II stealth aircraft, whilst significantly increasing our investment in our 6th generation Future Combat Air System. We are also increasing the capabilities of our A400M air transport aircraft so that it can take over the roles of the C130J fleet whilst investing in the next generation airborne C2 aircraft, E-7, which will replace the aging E-3D.

Similarly, we also chose to invest more in our intelligence capabilities, including through increased use of automation in the analysis of the vast amount of data we collect. We have also further increased our investment in our defensive cyber capabilities and in the transformation of our logistics and support of our forces to make both better and more efficient. Further investment in a Defence synthetic enterprise and better networked modelling and simulation capabilities will enable more efficient and better quality training, experimentation and mission rehearsal. And an increased pipeline of funding for our Special Forces will ensure that they continue to have the capabilities that they need to continue to undertake the most challenging operations.

In the Land Domain we will restructure around Brigade Combat Teams (BCTs) making the Army more responsive to operational demands. To enable this, we have expanded the Boxer programme to equip two BCTs and we are upgrading 148 Challenger tanks to make them amongst the most lethal and survivable in the world. In addition, we will increase the capability and capacity of our layered ground-based air defence, modernise our Land based electronic warfare and signals intelligence capabilities and improve our ISR capabilities by extending and upgrading our tactical UAS, Watchkeeper, and increase the number of batteries of Mini-Unmanned Aerial Systems, Project Tiquila. These investments will enhance the Army's ability to defend itself to attack from the air, improve understanding of their operating environment, but also enable targeting of their future deep fires capabilities.

Key capability enhancements in the Royal Navy are to the Sea Viper Air Defence missile system in our Type 45 Destroyers to meet the increasing and evolving threat. We are also investing in a new lightweight torpedo for our ships and aircraft to replace our current Stingray weapon and we will buy a highly capable ship to ship missile to replace our current Harpoon missile system which will go out of service in 2023. We will also improve

the availability and readiness of our nuclear submarine fleet through significant investment in support and sustainment, including greater use of data analytics to target spend to get the best results. Our Merlin helicopters will be extended in service from 2029 until 2040. Frigate availability will also be improved over the next few years by extending the life of three of our most recently refitted ships. But perhaps the most significant additional investment in this area is in our shipbuilding pipeline. This will provide volume and certainty for our national shipbuilding enterprise and incentivise UK industry to also invest to deliver world-leading levels of productivity.

New and Transformative capabilities

The SR settlement has enabled Defence to invest in new capabilities and technologies relevant to the future operating environment and to support multi-domain integration. This includes major new investment in the Concept and Assessment phase for the Future Combat Air System (FCAS) which builds upon our commitments to the FCAS Technology Initiative. Other examples of new capability areas being invested in as a result of the increased funding for Defence include:

- National Cyber Force and offensive cyber capabilities,
- Space Command and space-based capabilities, including novel hyperspectral sensing ISR and communications,
- Digital Transformation of our systems and networks including investment in hyperscale cloud capability,
- A Defence Artificial Intelligence Centre, as part of the Digital Foundry, to enhance our use and exploitation of AI across Defence,
- World-leading autonomous minehunting capability to replace our legacy platforms
- A new class of Frigate, the Type 32, which will increase our fleet size for the first time in decades,
- A new Multi-Role Ocean Surveillance ship which will enhance our ability to protect our underwater critical national infrastructure, and augment our survey and anti-submarine warfare capabilities,
- A new fleet of multirole medium helicopters will replace four existing aircraft types and land lift and global CT capabilities,
- Land Special Operations capabilities through a new Ranger battalions,
- Cyber and Electromagnetic capabilities within our new Army structures,
- The Future Commando Force which will change the way we operate and fight in the littoral, and
- Enabling capabilities to support our greater persistent engagement across the world, including through an enhanced global network of Defence engagement experts, improvements in key global hubs and increased secure global communications.

In recognition of the pace of technological change and our inability to accurately predict the future, we have also significantly increased our investment in Research and Development (R&D). This pipeline of funding will enable us to accelerate the development, experimentation and introduction of today's and tomorrow's transformational capabilities for our Armed Forces and explore the opportunities in generation after next

technologies. New R&D spend is focused on key future capability challenges and opportunities, as outlined in the MOD's Science and Technology Strategy which are:

- Pervasive, full spectrum, multi-domain Intelligence, Surveillance and Reconnaissance (ISR),
- Multi-Domain Command & Control, Communications & Computers (C4),
- Secure and sustain advantage in the Sub-Threshold,
- Asymmetric hard power, and
- Freedom of Access and Manoeuvre.

This R&D will be delivered through a number of pipelines delivering projects in these challenge areas and new investment in Game Changer capability demonstrators for Directed Energy Weapons (DEW), Space ISR and Multi-Domain Integrated swarms as well as continued funding for the C2, ISR and Anti-Submarine Warfare Spearheads.

This increased investment across all three areas described will ensure that Defence is better able to meet the threats of the future by delivering an ambitious programme of modernisation, increasing our capability in all five operational domains (land, sea, air, space and cyberspace) whilst exploiting new technologies to the maximum extent. As a consequence, our armed forces will be more agile, more lethal, more integrated and able to adapt faster to evolving threats.

In answer to a question from Sir Geoffrey Clifton-Brown (Q99) the Permanent Secretary agreed to write to the Committee to explain what has and has not been announced and assumption, in reference to a letter sent to the PAC about the Equipment Plan (26 June 2021).

£24bn is the cash increase in the Defence budget across the SR20 period (2020/21 to 2024/25). In other words, this is the difference between the Defence settlement and a flat cash alternative (i.e. no increase between any of the years 20/21 to 24/25).

The increase in the Defence budget has also been quoted as £16.5bn, which is the increase in the Defence budget across the SR20 period but using a different baseline: the department's previous planning assumption of 0.5% real growth over the period.

1.8% is the average annual real growth between 2019/20 and 2024/25. This is the average growth rate and growth between individual years will differ.

Beyond the HM Treasury settlement, which covers the period up to 2024/25, we use a planning assumption of 0.5% real growth in the defence budget up to the end of our 10-year planning period. The revised allocation for equipment within this budget planning assumption is £237 billion over 10 years. The department has used similar planning assumptions in previous equipment plan reports.

In my letter of 22 June 2021 to the committee on the 2020-2030 equipment plan, I explained that we were similarly using a 0.5% real planning assumption for the defence budget, in line with the government's manifesto commitment.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D Williams', with a long horizontal flourish extending to the right.

DAVID WILLIAMS