



House of Commons  
Committee of Public Accounts

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# Improving the performance of major defence equipment contracts

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**Twenty-Second Report of Session  
2021–22**

*Report, together with formal minutes relating  
to the report*

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## Summary

The Ministry of Defence (the Department) has been managing suppliers and delivering military equipment programmes critical to our national security for decades. There have been numerous reviews of defence procurement over the past 35 years, which have provided the Department with opportunities to take stock and learn from experience. We are therefore extremely disappointed and frustrated by the continued poor track record of the Department and its suppliers—including significant net delays of 21 years across the programmes most recently examined by the National Audit Office—and by wastage of taxpayers' money running into the billions. The Department is in a disadvantageous position because it relies on a limited specialist supplier base to meet its needs and at times lacks the skilled personnel to effectively manage the performance of these suppliers. Overall, we are very concerned that the Department—and ultimately the taxpayer—bears too much of the financial risks for failure.

In evidence to the Committee, the Department failed to assure us it is taking these matters sufficiently seriously or that it can quickly deliver a radical step-change in performance through its improvement plans. We recognise the Department's strategic intent for its Strategic Partnering Programme, but its forecast savings from this Programme represent less than 0.1% of its forecast Equipment Plan spend. In monitoring these areas in the future, the Committee expects greater transparency around performance and more openness from the Department about the challenges it faces. Without this, the Department will not learn effectively from its experience. To meet the aspirations of the Integrated Review, the Department's broken system for acquiring military equipment needs an urgent rethink, led by HM Treasury and the Cabinet Office.

## Introduction

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The Ministry of Defence (the Department) is responsible for some of the most complex, costly and risky programmes in government. The Department is procuring and delivering military equipment for use across the five military “domains” of Air, Land, Maritime, Space and Cyber. We took evidence on 20 projects and programmes examined by the NAO which are among the most important across government for safeguarding our national security, and which make up the bulk of the Equipment Plan’s budgeted whole-life costs of £163 billion. The recent Integrated Review has highlighted growing conflict and instability in the world, meaning the Department must deliver military capability on time to meet emerging threats while providing value for money for taxpayers.

Responsibility for managing and delivering defence programmes and contracts is shared between the Commands (Army, Navy, Air and Strategic Command), the Department’s Head Office, and its delivery agents (Defence Equipment & Support (DE&S), Defence Digital and the Submarine Delivery Agency). Teams within the Commands are accountable for delivery of programmes, while delivery agents lead on commercial negotiations and day-to-day relationships with suppliers, and are accountable for delivering equipment.

## Conclusions and recommendations

1. **The Department's system for delivering major equipment capabilities is broken and is repeatedly wasting taxpayers' money.** As the external environment becomes more dangerous, the nation depends on the Department to deliver equipment capabilities on time in preparedness for conflict. However, the Department is currently forecasting net delays to entry into service of 21 years across 13 of the programmes examined by the NAO. We were surprised with the Department's apparent complacency given that senior responsible owners (SROs) reported delivery confidence as 'amber/ red' or 'red' ratings for 8 out of 19 programmes in March 2021. We were not assured by witnesses that the Department will not simply throw good money after bad, given the Department's willingness, for example, to incur hundreds of millions of pounds of additional cost on the Protector programme to address affordability challenges. The Department points to complexity in programmes after they have gone wrong to excuse the fact that it, and its suppliers, failed to produce more realistic costings and schedules. The forecast costs of nine out of 12 programmes increased between early business cases and the main investment decision—three by more than 50%. DE&S's failure to control its suppliers on many programmes means that the Department's system for procuring equipment and managing suppliers needs an urgent rethink by the centre of government.

**Recommendation: HM Treasury and the Cabinet Office—with experienced external input—should review the Department's model for delivering equipment capabilities, including assessing:**

- *how the Department holds suppliers to account for their performance;*
  - *the culture and relationships between Senior Responsible Owners, end-users and delivery agents; and*
  - *how the Department undertakes technical risk assessments to arrive at cost and schedule estimates.*
2. **We are deeply concerned about departmental witnesses' inability or unwillingness to answer basic questions and give a frank assessment of the state of its major programmes.** The Department is not sufficiently open about programme progress and risks. A few weeks before our evidence session it considered initial operating capability on the Ajax programme achievable by the end of June 2021. That did not happen and now it has no timescale for when these armoured vehicles will be ready for service. While witnesses told us that investigations into noise and vibration issues are continuing, they could not explain the likely causes or remedial action necessary. So far, the Department plans to offer 310 service personnel hearing tests, but the potential long-term health implications of this failure remain unknown. In addition, the Department's refusal to explain the magnitude of its financial exposure in the event of a contract termination demonstrates a disregard for Parliament and taxpayers. We were struck by witnesses' reluctance to attribute problems with the Crowsnest and Ajax programmes to providers' poor performance or project management, even though in both cases it is a matter of public record. In this situation it is essential to monitor robustly whether value for money is still

being achieved. But the Department admits that it does not routinely monitor value for money of programmes, nor have its Accounting Officer Assessments rendered sufficiently clear accounts of value for money.

**Recommendation:** *The committee expects the Department to develop a more transparent approach to assessing value for money. In particular, the Accounting Officer Assessments letters—which come to this committee when significant changes occur on major programmes—should include a more detailed and frank assessment of how the changes impact on the value for money case as defined at the start of the programme.*

3. **The Department does not make enough demands of its suppliers to share the financial risks as well as the rewards of contracting for major equipment capabilities.** The Department is dependent on a limited supplier base to deliver its major equipment programmes. Of the 20 programmes examined by the NAO, 14 are being wholly or partly procured non-competitively, mainly through choice, rather than reasons of national security. Suppliers understand that poor performance on one contract will not stop them winning the next. We are concerned that the Department pours money into the developmental stages of programmes while suppliers are reluctant to accept more risk. Suppliers should contribute their fair share of development funding to equipment programmes so they are sufficiently incentivised to deliver. The Department told us that it has a range of contractual levers to encourage suppliers to deliver and that, for example, it was applying these in the case of the Ajax programme. Despite this, they are clearly not having the required effect. The Department has prioritised pursuing bespoke, ‘gold plated’ platforms—which are a source of considerable delay in the equipment portfolio—which then prove difficult and expensive to upgrade. It could reduce its exposure to risk and encourage more constructive attitudes from suppliers if it was more willing to buy proven equipment ‘off the shelf’, where the pain of development has already been borne by others.

**Recommendation:** *The Department should write to the Committee within six months with a clear plan on how it will ensure suppliers take on their fair share of the financial risk in contracts, and how it will take past performance into account when letting new contracts.*

4. **The Department continually fails to learn from its mistakes.** The Department has been delivering equipment programmes for decades and has overseen many expensive failures. There have been at least 13 formal reviews of defence procurement policy over the last 35 years which have provided the Department with opportunities to take stock and learn from experience. We were therefore shocked to learn that the Department had only established a central register of learning from experience (LFE) in December 2020. Experience shows that there is a need for reflection and openness earlier in the process to avoid further catastrophes like Ajax. This does not convince us that the Department aspires to achieve a radical step-change in performance. We are encouraged by the Department’s Strategic Partnering Programme (SPP) initiative launched in 2018 to transform its relationships with industry. We recognise its strategic intent, but are disappointed with its lack of ambition in forecasting only £160 million in savings over the next ten years—less than 0.1% of its forecast Equipment Plan spend. The Department told us that it

expects efficiencies to amount to hundreds of millions of pounds as the programme matures, but until it develops scalable plans and can clearly attribute improvements to its interventions, it is cautious about the scale of potential success.

**Recommendation:** *The Department should provide the committee with a clear plan on how it will draw on LFE and how its SPP and associated initiatives will generate the level of savings that would be expected from work that is intended to transform the procurement of hundreds of billions of pounds of equipment.*

5. **The Department will not secure a step change in performance until it can recruit and retain the highly skilled staff that it requires.** The Department continues to suffer from skills shortages in key areas critical to effective contract and programme management. It relies on expensive temporary contractors to deliver many of its programmes. We note that the cost of staff is small in comparison to the cost of the programmes the Department delivers. It pointed to constraints on its ability to recruit the right people who would help to deliver programmes to time and budget, but acknowledges that the question of paying people appropriately for their skills is being considered across government. However, we were surprised that the Department was so relaxed about losing skilled people to the private sector. We are concerned about the deliberate policy of regularly changing SROs and other senior staff working in programme teams, with individuals in post for a fraction of the contract lifecycle. Retaining and developing talent over substantive programme phases would help to stabilise delivery, with promotion linked to performance. The Department is still not doing enough to make sure that the armed forces treat the role of SRO as seriously as operational deployments. Examples of ‘double touring’ SROs on major programmes are welcome, but the Department needs to do more to prioritise and incentivise programme delivery among this cadre of senior officers.

**Recommendation:** *The Department and HM Treasury should write to the committee within the next six months setting out how together they will address the gap in skills that it needs for effective contract and supplier management; making the Department competitive in specialist labour markets; and improving retention. In its letter, the Department should also set out what more it will do to get greater continuity in the SRO role, including where feasible a single SRO for the lifetime of a project, and to recognise the role’s fundamental importance to delivering military capabilities effectively. The Department should specifically be clearer for military SROs about the scope and ambition for more back-to-back tours, and about how performance in the SRO role will be assessed and is relevant to career paths. For civilian SROs the Department should include specific comment on the scope for more use of fixed-term assignments to ensure that SROs are suitably invested for in the long-term.*

6. **The Department continues to be unclear about what additional capability the taxpayer will get from the extra £16.5 billion in the 2020 Spending Review.** We remain to be convinced that the government’s substantial uplift to the Department’s budget will not simply be used to plug financial holes across its programmes. We are struck in recent evidence sessions by how many departmental witnesses with differing responsibilities have pointed to the additional funding as a solution to their problems. We note that as well as addressing £7 billion affordability gap in the Department’s 2020–2030 Equipment Plan, the Department is spending £6.6 billion

on R&D, and additional funding for pension changes and enhancing childcare for service personnel. It had previously written to us to say that the money would be used for both new and existing capabilities. However, witnesses could not say whether truly additional capabilities will be delivered through the additional funding. In addition, the Permanent Secretary was unclear about the basis of the assumptions informing its calculations of funding over the next ten years, including what has and has not been approved.

**Recommendations:** *The Committee expects to see absolute clarity in the Equipment Plan 2021–2031 about what additional capability the Armed Forces is getting for the additional £16.5 billion and how it has secured the long-term affordability of the Plan. It should clearly distinguish between new capabilities and those already in development.*

# 1 The system for delivering major equipment capabilities

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1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Defence (the Department) and Defence Equipment & Support on improving the performance of major equipment contracts.<sup>1</sup>

2. The Department is responsible for some of the most complex, costly and risky programmes in government. We took evidence on 20 projects and programmes examined by the NAO where the Department is acquiring military equipment for use in the five “domains” of Air, Land, Maritime, Space and Cyber. They are among the most important across government for safeguarding our national security, with whole-life costs of £120.3 billion.<sup>2</sup> The government’s recent Integrated Review highlighted growing conflict and instability in the world, with 2016 and 2019 witnessing the highest number of active armed conflicts internationally since the end of the Second World War.<sup>3</sup> It is against this backdrop that the Department must deliver military capabilities on time to meet emerging threats, while providing value for money for taxpayers.

3. Responsibility for managing and delivering defence programmes and contracts is shared between the Commands (Army, Navy, Air and Strategic Command), the Department’s Head Office, and its delivery agents (Defence Equipment & Support (DE&S), Defence Digital and the Submarine Delivery Agency). Teams within the Commands are accountable for delivery of programmes, while delivery agents lead on commercial negotiations and day-to-day relationships with suppliers, and are accountable for delivering equipment.<sup>4</sup>

## Progress of major programmes

4. In 13 of the 20 programmes examined by the NAO, our armed forces must tolerate cumulative forecast net delays of 254 months—or 21 years—for equipment entering service against initial expectations. The Department talked about the systemic challenges and complexities in defence equipment acquisition. It told us that the majority of the delays resulted from the A400M, Warrior and Marshall programmes, while the position on other programmes is mixed.<sup>5</sup> However, three programmes reported forecast delays of over two years, including Crowsnest which is a key enabler for the Department’s Carrier Strike capability.<sup>6</sup> The NAO report also details a number of examples where the Department or its suppliers failed to adequately appreciate the degree of technical complexity involved in delivering the capabilities. These examples include the Warrior armoured vehicle upgrade, the Ajax armoured vehicle (outlined below), A400M transport aircraft, Marshall air traffic management system, Spearfish torpedo upgrade, Morpheus and the Crowsnest radar

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1 C&AG’s report, *Improving the Performance of Major Equipment Contracts*, HC 298, Session 2011–22, 24 June 2021

2 C&AG’s report, paras 1–6

3 HM Government, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy*, CP 403, March 2021

4 C&AG’s report, para 2

5 Qq 1–2

6 C&AG’s report, Figure 6

system.<sup>7</sup> This situation echoed a number of our previous reports where we have noted that the Department's optimism bias has led to inaccurate cost and schedule estimates, most recently in July 2020.<sup>8</sup>

5. Recent delivery confidence assessments by senior responsible owners (SROs) on the programmes the NAO examined paint a similarly worrying picture. Eight SROs across 19 programmes rated deliver confidence as 'amber/red' or 'red' in March 2021, meaning the likelihood of achieving successful outcomes within the Department's current approvals is in doubt.<sup>9</sup> This assessment is shared by the Infrastructure and Projects Authority, which analysed the Department's top 36 procurement programmes in its 2020–2021 Annual Report on Major Projects but did not score a single one as Green (successful delivery of the project is on time, budget and quality appears highly likely).<sup>10</sup> The Department told us that projects rated 'red' are of particular concern, while 'amber/red' reflects the degree of complexity in their delivery, including technical complexity, the complexity of the industrial base or bringing together different lines of development to deliver the capabilities.<sup>11</sup> The Permanent Secretary said that he was not surprised by this position.<sup>12</sup> SROs also reported concerns with supplier engagement and performance, with only seven of the projects and programmes reporting a high degree of confidence in suppliers' performance.<sup>13</sup>

6. The Department has overseen significant forecast cost increases on programmes before awarding contracts. In nine of 12 programmes with available data examined by the NAO, the forecast cost increased between initial expectations and award of contracts, with three increasing by more than 50%. In four of nine programmes with available data, the cost estimate approved at the point of contract award exceeded the Department's initial worse-case scenarios.<sup>14</sup> Cost increases after the Department has awarded contracts are less common, although four programmes have seen cost increases ranging from 18% to 60%.<sup>15</sup> In the case of the Department's Protector programme, its decision to defer the programme due to affordability pressures is expected to cost taxpayers £326 million.<sup>16</sup> In the Department's 2019 Accounting Officer Assessment for this programme, it considered that the programme remained value for money.<sup>17</sup> The Permanent Secretary acknowledged that the continuing practice of incurring higher costs overall in order to reduce expenditure in the short term is 'sub-optimal'.<sup>18</sup>

7. Cost increases or cuts to funding on the Department's programmes can have a profound impact on the level of military capability that can be achieved. For example, it is procuring considerably fewer Ajax armoured vehicles and Challenger 3 tanks than it identified it needed in earlier assessments, as well as fewer P-8A maritime patrol aircraft and Type 26 frigates. In addition, delaying the entry into service of new capabilities can

7 C&AG's report, para 3.7 and Figure 6

8 Committee of Public Accounts, *Defence capability and Equipment Plan*, Tenth Report of Session 2019–21, 1 July 2020.

9 C&AG's report, para 1.7

10 Infrastructure and Projects Authority, *Annual Report on Major Projects 2020–21*, July 2021

11 Q 2

12 Q 2

13 C&AG's report, para 1.7

14 C&AG's report, para 2.5

15 C&AG's report, para 2.6

16 C&AG's report, paras 2.6 and 5.11

17 C&AG's report, para 5.11

18 Q 89

mean the Department has to rely on ageing equipment and in some cases, equipment which is becoming obsolete. For example, delays encountered on the Department's two frigate programmes mean predecessor vessels had to be upgraded to stay in service.<sup>19</sup>

8. We questioned the Department in detail on the Ajax programme to procure armoured reconnaissance vehicles for the Army. In 2014, the Department agreed a deal with General Dynamics United Kingdom (GDUK) to procure 589 vehicles - down from an initial requirement of 761 vehicles. The Department decided to overlap the 'demonstration' and 'manufacture' stages of the programme in pursuit of savings and a quicker timetable, but this led to a 15-month renegotiation. The resultant baselining of the contract in 2019 included some concessions on capability by the Department. In April 2021, a review by the Infrastructure and Projects Authority raised serious concerns about the Department's ability to deliver the programme.<sup>20</sup> A significant problem facing the programme has been the discovery of noise and vibration issues adversely affecting soldiers' health during equipment trials. The Department told us that soldiers were first reporting sick with vibration-related symptoms in the middle of 2020, and that anecdotal reports of the issue go back as far as December 2019.<sup>21</sup> The Minister for Defence Procurement has since told Parliament that in December 2018 the Army imposed restrictions on the use of the vehicles in relation to vibration and identified that a design upgrade was needed. Although the Department's analysis is ongoing, it has decided to offer hearing tests to 310 service personnel, while its work to establish any other vibration-related health effects is ongoing.<sup>22</sup> Despite the length of time the Department has known about this issue, there is still no definitive information on the source of the noise and vibration.

9. The Department had told the NAO that it considered initial operating capability achievable by the end of June 2021, but in our public evidence session, witnesses could not tell us when some sort of capability will be secured, even in broad terms.<sup>23</sup> The Department told us it has commissioned an external review of the Department's route to full operating capability in 2025 and committed to write to us once it had a clearer understanding on timescales.<sup>24</sup> The Minister for Defence Procurement told Parliament that, as at September 2021, it was not possible to set a realistic timescale for the vehicles' entry into operational service.<sup>25</sup>

10. The Department has spent nearly £4 billion of its budget by March 2021—including payments to GDUK of £3.1 billion—out of budgeted whole-life costs of £5.5 billion.<sup>26</sup> It has so far received 14 vehicles, 2% of its contractual fleet requirement.<sup>27</sup> Witnesses told us they were not prepared to outline the magnitude of potential losses to taxpayers in the event of contract termination, but told us that there are strong provisions in the contract and that it has imposed liquidated damages on GDUK for its failures.<sup>28</sup>

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19 C&AG's report, para 2.8

20 C&AG's report, Figure 6

21 Qq 29–30

22 Minister for Defence Procurement, Statement on the Armoured Cavalry Programme (Ajax) Programme, 6 September 2021, HCWS260

23 Qq 37–47

24 Qq 37, 47

25 Minister for Defence Procurement, Statement on the Armoured Cavalry Programme (Ajax) Programme, 6 September 2021, HCWS260.

26 Qq 57–58

27 Q 5

28 Qq 56–57

## Monitoring value for money

11. HM Treasury directs that Accounting Officers should confirm to Parliament that procurements remain value for money (VFM) where there are significant changes to costs and schedules. The Accounting Officer had assessed eight of the projects examined by the NAO for this reason, yet did not find that VFM had been undermined in any case. For example, in upgrading the Warrior armoured vehicle, the Department never reached a view on whether its proposed approach constituted value for money, despite spending over £580 million on it by the time of its cancellation in 2021.<sup>29</sup>

12. We asked witnesses about the process for determining value for money and whether it monitors whether programmes remain so. The Department told us that there are routine 'touchpoints' through a capability's life, but acknowledged that it does not routinely take a step back and evaluate whether VFM has been achieved. It believes more regular evaluation of VFM is 'worth thinking through'.<sup>30</sup>

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29 C&AG's report para 5.9 and Figure 8

30 Q 87

## 2 Managing suppliers and learning from mistakes

13. Across the 20 projects and programmes examined by the NAO, 14 are being procured partly or wholly non-competitively, despite the fact that ‘competition by default’ has been departmental policy for nearly a decade. In only four of these cases was this due to ‘sovereignty capability’ requirements, whereby the government must source capabilities from specific suppliers due to the need to protect the UK’s national security interests or operational advantage.<sup>31</sup> In the absence of competition, there is a risk that the Department will continue to award further contracts to poorly performing suppliers. The Cabinet Office’s recent green paper on public procurement proposes that it should be easier to take into account past supplier performance when awarding future contracts.<sup>32</sup>

### Sharing risks with suppliers

14. The Department spends significant sums on the developmental stages of programmes while suppliers may not be paying their fair share. The Department argued that it is standard practice to pay for work against agreed milestones across areas such as development, demonstration, training and manufacture.<sup>33</sup> However, given the number of programmes that have encountered problems, better incentivisation of suppliers could be sought through securing more substantial private investment up-front. For example, on Ajax, the Department has paid out £3.1 billion to GDUK, while GDUK has told the Defence Committee that it has invested £40 million on manufacturing facilities and jobs: a ratio of 99:1.<sup>34</sup> The Department has reduced its exposure to risk in some cases by buying proven equipment ‘off the shelf’, such as the Boxer armoured vehicle, Poseidon P8-A maritime patrol aircraft and Protector unmanned aerial vehicle.<sup>35</sup> The Department told us that this approach is typically suitable for lower-value programmes but that from experience, off the shelf acquisitions with UK-specific modifications may be better than a full development programme, such as the Crowsnest radar system.<sup>36</sup>

15. Problems with supplier performance include their inability to undertake complex design work within agreed timetables, difficulties in satisfying safety regulators’ requirements, and their inability to project management effectively due to under-resourcing.<sup>37</sup> However, the Department has also contributed to problems, in particular it has managed the integration of different elements of programmes and the work of different contractors poorly. In equipment procurement, a particular challenge for the Department is its inability to deliver ‘Government Furnished Assets’ (GFA), such as equipment, information or resources, to suppliers in line with contractual obligations. On the Type 31e frigate programme, the Department had not finalised its schedule of GFA 18

31 C&AG’s report, para 3.2

32 C&AG’s report, para 3.10

33 Q 12

34 House of Commons Defence Committee, *Oral Evidence: Ajax: recent developments*, HC 550, 20 July 2021, Q 80.

35 C&AG’s report, para 3.2 and Figure 6

36 Q 93

37 C&AG’s report, para 3.8

months after awarding the contract.<sup>38</sup> The Department also makes suppliers' achievement of contract milestones more challenging by often changing its mind about what it wants during the contract, as in the case of the Warrior armoured vehicle upgrade.<sup>39</sup>

16. The Department has ambitions to improve delivery performance through use of 'agile' procurement—delivery methods where the requirement and solutions are developed collaboratively in discrete steps with flexibility around requirements, cost and schedule. However, delivery teams found that agile approaches were incompatible with the Department's emphasis on certainty of output and cost. Two of the Department's digital programmes teams—New Style of IT (Deployed) and Morpheus—identified a range of shortcomings in their early adoption of agile approaches. These included learning by trial and error, a lack of shared understanding of what will be delivered, customers' reluctance to accept trade-offs in capability to improve the speed of delivery, suppliers' lack of experience with the approach, and difficulties when agile programmes need to join up with programmes being delivered traditionally.<sup>40</sup>

### Learning from experience

17. The Department's willingness and ability to systematically record its learning from existing programmes is critical to securing improvements in the future. There have been at least 13 formal reviews of defence procurement policy over the last 35 years, which have provided the Department with opportunities to take stock and learn from experience.<sup>41</sup> While existing guidance in the Department is clear on the importance and benefits of recording and sharing learning from experience (LFE), the Department has not systematically gathered and distributed LFE from programmes.<sup>42</sup> While most programmes have identified lessons, some have done so more systematically than others. For example, the Warrior armoured vehicle upgrade programme identified that they would have benefited from better collaboration within the programme team, and between themselves and the Ajax armoured vehicle team.

18. The same lessons have been identified again and again across programmes, including underestimation of programme complexity at the design stage, users being unclear about their requirements, the need to have sufficient resources and skills in place, and shortcomings in delivering GFA.<sup>43</sup> The Department only established a central register of LFE for the first time in December 2020. The Department told us that it recognises LFE as an area for improvement and pointed to the complexity of the landscape, which spans four Commands, three delivery agents and several operating centres.<sup>44</sup>

### Initiatives to improve delivery

19. In 2018, the Department established a Strategic Partnering Programme (SPP) to maximise commercial leverage with its 19 most important suppliers by improving contract performance and managing strategic risks.<sup>45</sup> The Department told us that the

38 C&AG's report, para 3.16

39 C&AG's report, para 3.8

40 C&AG's report, paras 3.4–3.5

41 Q 3

42 C&AG's report para 5.12

43 C&AG's report para 5.13

44 Q 3

45 C&AG's report, paras 3.17–3.18

programme is now embedded across 14 suppliers and emphasised its vision to achieve a single view of suppliers' contracts with the Department and suppliers' performance under contracts. Witnesses cited ongoing detailed work looking at dockside support for ships and submarines as an example of how its 'workstreams' will improve efficiency.<sup>46</sup> Its current savings target for the programme is £160 million—less than 0.1% of its forecast Equipment Plan spend of £163 billion, though its intention is to scale up its savings targets by 'hundreds of millions' of pounds.<sup>47</sup> The Department told us that attributing savings to the programme's interventions is challenging and it was worried about double counting of savings because of overlaps with DE&S's ongoing efficiency programme work.<sup>48</sup>

20. The Department has relatively more ambitious savings targets of £628 million over the next 10 years for its 'category management' programme. Category management involves grouping together related products and services into market 'segments' to generate efficiencies. The Department's earlier attempt at introducing the practice in 2004 achieved significant efficiencies, but ultimately failed because the processes required to embed the programme were not established by the time start-up funding was withdrawn.

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46 Q 73

47 Q 77

48 Qq 77–78

## 3 Securing skilled staff and additional funding

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### The Department's reliance on temporary contractors

21. Having the right people in place to manage suppliers is essential to ensure programme progress and to hold suppliers to account. However, many of the Department's programmes were reliant on temporary contractors to fill these roles, especially in the Department's digital projects and programmes. In two of these—New Style of IT (Deployed) and Morpheus—temporary contractors made up 79% and 58% of posts respectively.<sup>49</sup> Under the Department's previous information strategy, it took on more responsibility for the direct management of contractors, but for the three digital programmes the NAO examined, the Department has failed to recruit people with the right skills and experience to do this effectively.<sup>50</sup> The Department told us that ensuring the right skills available to programmes is a challenge shared across government as well as among suppliers. The Department envisages recruiting around 200 additional digital specialists to boost its capability in these areas.<sup>51</sup>

22. The Department is also reliant on contractors on some of its maritime programmes, where between one sixth and one third of staff working on the Spearfish, Type 31e frigate and Fleet Solid Support programme teams are contractors. The Department puts this down to the burden of several major programmes being launched concurrently. It explained that it can draw on framework contracts for specialist skills where needed and that it is committed to reducing spend on temporary contractors.<sup>52</sup> We asked the Department whether civil service pay rates are a limiting factor in keeping people in role. It told us that pay for specialist roles is a live issue across government, including in the project delivery, digital and commercial professions. It explained that while the Department has flexibility in setting pay in the market for fixed-term appointments, there is less flexibility for civil servants progressing into senior roles.<sup>53</sup>

### Senior Responsible Owners

23. Senior responsible owners (SROs) have responsibility for ensuring a programme meets its objectives. SROs oversee governance of programmes and steer them through key decision points, assisted by a delivery team. The NAO's analysis showed that the median time in post for an SRO was 22 months, against median programme length of 77 months, reflecting the career path requirements of the senior officers who fill most SRO roles. A recent departmental survey found that many SROs did not feel empowered to carry out their roles, while some felt least competent in areas important to the effective management of suppliers.<sup>54</sup> We asked the Department what it is doing to ensure that the role of SRO becomes an important part of the CV for military officers. The Department claims it has a good record of putting SROs through Major Projects Leadership Academy

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49 C&AG's report, para 17 and Figure 7

50 C&AG's report, paras 4.6–4.7

51 Qq 83–84

52 Qq 85–86

53 Q 103

54 C&AG's report, para 4.11

training,<sup>55</sup> but some of its own survey respondents reported difficulty in accessing it.<sup>56</sup> The Department was non-committal on the actions it plans to take, but said that it is looking at personnel policy to ensure project and programme delivery are recognised as military trades in their own right. It also aspires to ensure that SROs spend at least 50% of their time on programmes and said it has experience of some personnel staying on programmes for longer than a traditional military appointment (‘double touring’).<sup>57</sup> We also asked whether, for military SROs, the Department had thought about moving towards a model whereby the SRO stays in post throughout the term of a particular contract, and promotion is dependent on the successful delivery of that contract. The Department said it had experience of “double-touring” people to get longer terms in office, and that there were examples where it would be happy to see military SROs promoted ‘in-role’ as a programme progressed. It said that it was having a “range of conversations about unified career management and what that might mean” but would need to come back to us on linking performance to promotion.<sup>58</sup>

### Additional funding

24. The Department secured an additional £16.5 billion in funding over the next four years in the 2020 Spending Review. Given the Department’s track record of short-term financial management, and schedule delays and cost growth across its programmes, we asked the Department whether it is certain that the additional money will not just be used to plug existing financial holes and fund existing projects.<sup>59</sup> It has already acknowledged in previous evidence sessions that part of the additional money will be used to plug its estimated £7 billion Equipment Plan shortfall.<sup>60</sup> The Department could not provide a clear account of the extent to which the money will secure genuinely new equipment and capabilities. It had previously written to us to say that the money would be used to fund both new and existing capabilities. However, in our oral evidence session, the Department could not clearly explain the basis of its longer-term projections or point to what has and what has not been approved.<sup>61</sup> The Department’s letter to us also set out other spending commitments using the new money, such as spending £6.6 billion on R&D, and additional funding for pension changes and enhancing childcare for service personnel.<sup>62</sup>

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55 Q 86

56 C&AG’s report, para 4.11

57 Q 86

58 Q107

59 Q 96

60 Committee of Public Accounts, *Oral Evidence: Defence Equipment Plan 2020–2030*, HC 693, 4 February 2021, Q 24

61 Qq 94–99

62 Correspondence from David Williams, CB to Dame Meg Hillier, MP, *Follow up to 4 February PAC oral evidence session: Defence Equipment Plan 2020–2030*, 22 June 2021.

## Formal minutes

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### Thursday 21 October 2021

Members present:

Dame Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown

Peter Grant

Mr Richard Holden

James Wild

### ***Improving the performance of major defence equipment contracts***

Draft Report (*Improving the performance of major defence equipment contracts*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 24 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

*Resolved*, That the Report be the Twenty-second of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

### **Adjournment**

[Adjourned till Monday 25 October at 3:30pm]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Monday 12 July 2021

**David Williams**, Permanent Secretary, Ministry of Defence; **Andrew Forzani**, Chief Commercial Officer, Ministry of Defence; and **Sir Simon Bollom**, Chief Executive, Defence Equipment and Support, Ministry of Defence

[Q1-115](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

IPC numbers are generated by the evidence processing system and so may not be complete.

- 1 Patel, Jag ([IPC0001](#))
- 2 Belfield, Haydn; Jayanti, Amritha and Shahar, Dr Avin ([IPC0002](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

### Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179
21st	School Funding	HC 183
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

**Session 2019–21**

<b>Number</b>	<b>Title</b>	<b>Reference</b>
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687

<b>Number</b>	<b>Title</b>	<b>Reference</b>
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941