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PERMANENT SECRETARY

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**Dame Meg Hillier**  
**Chair of the Committee of Public Accounts**  
*Sent electronically*

Dear Chair,

### **MINISTRY OF DEFENCE UPDATE**

Following my attendance with Charlie Pate, my Director General Finance, at the Committee hearing on 22 June 2022, I am writing to follow up the specific points raised in your letter to me of 19 July 2022 and to provide further information as requested on issues covered in that oral evidence session. I am sorry this has taken longer than you wanted.

#### **The Ajax platform and support of trials by Millbrook**

As I mentioned during the evidence session, Millbrook concluded its independent trials on the performance of modified vehicles in March 2022. The findings continue to be analysed and, together with results from further investigations on modified vehicles, informed both further engagement with General Dynamics and the approach taken in preparing for user validation trials, which aim to assess the effectiveness of the modifications proposed by General Dynamics.

The user validation trials remain paused while we continue to investigate an issue that arose around intelligibility of internal communications system. We plan to resume the trials once the data has been fully reviewed and understood and the safety panel is fully satisfied that it is right to do so. I expect that Defence Ministers will want to update the House at an appropriate point in the near future and I would be happy to provide an update to the Committee in parallel.

#### **Learning lessons from Ukraine and its impact on MoD's plans**

We continue to assess the threat posed by Russia, and lessons from its unprovoked invasion of Ukraine. We will ensure our strategic approach remains threat-led and in line with the agile planning and delivery mechanisms developed following the Integrated

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Review (IR). We regularly review our capabilities and readiness levels accordingly, to ensure our Armed Forces have the resources they need to tackle the challenges of today, as well as tomorrow.

On timing, we need to factor in how any review of or new chapter to the IR is to be conducted. As I said in the hearing, stockpile assumptions, beyond straightforward replenishment of supplies gifted to Ukraine, is an area that we are now addressing in-year. I would expect a range of other lessons to feature heavily in decisions on this year's planning round this autumn and into the new year.

In addition to lessons from Ukraine, Defence continues to need to invest for the long term in vital capabilities like future combat air and strategic international partnerships such as AUKUS. To realise this ambition, we are modernising the equipment and improving the capabilities of our world-class Armed Forces and intelligence agencies.

UK defence spending is expected to reach 2.3% of GDP this year, supported by the £2.3 billion of support for Ukraine.

### **Managing the pressures on nuclear enterprise budgets**

Access to the £10 billion Dreadnought contingency is controlled to ensure it does not adversely affect cost control mechanisms within the programme and is subject to scrutiny and agreement from Her Majesty's Treasury. As part of the approval for the third delivery phase of the programme, Treasury took an action to clarify and agree the process for accessing the contingency funding. The replacement warhead programme is in its early stages and work is underway to agree its funding arrangements.

### **Clarifying plans regarding F-35s**

Within an overall assumption of a whole fleet purchase of 138 F-35 Air Vehicles (AV), the IR continues our commitment to the Programme and confirms numbers for the next tranche of aircraft along with associated infrastructure, equipment and spares to support the UK's carrier strike capability through to a planned Out of Service Date (OSD) of 2069 for the two Queen Elizabeth Class Carriers and our F-35Bs.

I can confirm that a replacement for the AV lost in an accident in November 2021 has now been included in our funding for this next tranche of F-35B purchases. The plan is therefore to buy another 27 F-35Bs (up from 26), taking the total number to 74.

The whole life cost of the first tranche of F35Bs - out to the original OSD of 2048 - is £18.7Bn. Work is underway to update this whole life cost for 74 aircraft. I expect this to be complete by the end of the calendar year and will be happy to update the Committee then.

## **Impact of inflationary cost pressures on MOD**

When set against the assumptions which underpin our Spending Review (SR) settlement and forward plans, high inflation will reduce our spending power over the SR period and beyond. Inflation is volatile and many of the impacts are yet to play out so deriving a precise estimate of the impact on our cost base is challenging. As you would expect, we keep our programme under constant financial review, and use our contingency to manage risks if they materialise.

However, our existing controls will substantially limit exposure. As Mr Pate and I set out in our evidence session, mechanisms such as forward purchase of foreign exchange and our layered approach to financial contingency will, for example, help us manage this pressure. Recently announced pay settlements will limit financial risks although we need to recognise the knock-on risks associated with this in terms of recruitment and retention.

The main potential challenge is on our contract spend. We face two key risks. Firstly, there is the risk of price increases although, to an extent, our commercial mechanisms protect us from this in the short-term. Secondly, there is the risk of schedule delay feeding through as labour shortages, supply chain bottlenecks and shortage of materials bite. This could reduce spend in the short-term with financial pressure to follow in later years. We will be working over the coming months to understand how this might impact on overall affordability although we continue to manage the programme actively, having already brought forward spend opportunities where those de-risk future cost or delivery.

I would like to clarify a point, discussed between Mr Pate and Peter Grant MP at the evidence session, related to contingency funding and raised again in your letter. While the figure of £4bn was quoted, I can confirm that £5.9Bn of contingency has been set aside for the Equipment Plan (EP) across 10 years. Separately, £4.1bn has been set aside in future years for R&D exploitation and to continue to develop new and innovative capability. On top of this, the Department does have additional contingency beyond the EP.

## **Progress with reducing Service Family Accommodation voids**

The Defence Infrastructure Organisation (DIO) is currently working towards a void target of 10% of housing stock, providing the minimum Management Margin to effectively support routine and depth maintenance, in addition to the 15,000 Service family house moves each year. To meet this 10% void target, the total number of Service homes will need to be reduced.

The outcomes of the IR, and specifically the associated Army personnel reductions, have been modelled by the DIO in the assessment of the enduring SFA requirement, on a site-by-site basis, in turn informing the disposal plans for 2023/24 and beyond. However, anticipated policy changes, including the Defence Accommodation Strategy to be published in the autumn, will likely broaden entitlement to Service housing to other cohorts

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including those in Long Term Relationships, thereby potentially increasing overall demand for family accommodation notwithstanding the Army personnel reductions.

Meanwhile, the Department has continued to reduce the number of vacant properties across the UK Defence Estate from 11,500 (23%) at April 2019 to 9,699, (19.8%) at September 2021. As of 1 April 2022, the number of vacant properties was 8,557 (17.85% of the total number of properties). This equates to c3700 vacant properties over the void target of 10% and includes circa 1,760 void properties held to accommodate programmed unit moves and subsequent site disposals over the next 10 years. Once these unit moves occur, it will allow the disposal of c2,000 properties as current military sites are released. Therefore, we are, in effect, holding SFA for a number of units in both current and future locations. The alternative would be to dispose of stock not required in the short-term and either buy new homes when required for unit moves in the future – which would be considerably more expensive – or to substantially increase our future dependence on substitute Service family accommodation at greater long-term cost to the Department.

As you know, the Defence Estates Optimisation Programme (DEOP) seeks to rationalise the number of MOD sites to accommodate programmed unit moves over the next 10 years. The DEOP has a clearly defined scope, funding and delivery plan. For clarity, that scope excludes training estate and overseas basing and there are no plans to add those categories of our estate into DEOP. The programme has been updated to reflect changes in the IR, in particular to the Army's structure. Once formally signed off, I will send the committee – later this year – an updated summary of my Accounting Officer Assessment.

### **Progress improving the condition of service accommodation**

At the evidence session we discussed the Future Defence Infrastructure Services (FDIS) contracts which went live in April 2022. You asked me to outline the key performance indicators for FDIS, including customer satisfaction and work targets, and how these are linked to payments. The contracts have 37 KPIs in total grouped under the following categories: Compliance and Safety, Service Delivery, Management Information, Sustainability, Customer Satisfaction, Collaboration and Continuous Improvement, and Management of Change.

For each KPI the contract sets two levels of performance:

- An Acceptable Level of Performance (ALP), which is the minimum acceptable under the contract.
- A (higher) Target Level of Performance (TLP), which is designed to incentivise suppliers to go beyond the minimum.

Once the initial 6-month bedding-in period has ended, persistent performance below the ALP will result in financial consequences, and performance above the ALP will be rewarded with payments of additional Variable Profit. The maximum amount of Variable Profit will be paid if suppliers achieve the TLP. Performance is assessed over quarterly service periods.

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Specifically in respect of customer satisfaction, performance is measured through surveys of satisfaction with both reactive and planned maintenance. For both reactive and planned maintenance, the ALP is for 90% customer satisfaction with the service, and the TLP is 95%. Between 17% and 20% of all Variable Profit is linked to customer satisfaction (the % varies between maintenance and accommodation management contracts).

As is standard practice for major Government contracts, a summary of performance of the FDIS contracts will be published on a quarterly basis with the first report due to be published in late January 2023. These reports will cover four “Gold” KPIs selected in accordance with Cabinet Office criteria. These will measure performance in four broad areas: Right First Time, Homes Prepared to Meet the Move In Standard, Customer Satisfaction and Social Value.

### **Decentralisation of Armed Forces Continuous Attitudes Survey (AFCAS)**

There are no plans to decentralise the management of AFCAS to individual Services. Prior to 2007, the Services conducted their own personnel surveys. These surveys were tailored to support the needs of the individual Services however there were inconsistencies between the surveys. This made it difficult for MOD Head Office to respond effectively to requests from a tri- Service approach.

AFCAS 2023 will be sent out to Armed Forces personnel between September 2022 and February 2023, with the results anticipated to be published in May 2023. The questionnaire is regularly reviewed but remains largely unchanged year on year to allow long term trends to be monitored. Each Service has their own local communications plan which runs alongside the MOD Head Office communications, following a similar format to increase engagement with the survey and encourage participation. The Analysis Directorate produces data tables and a tri-Service report of the survey findings, which are reviewed by the front-line commands and the MOD Head Office personnel policy representatives. The front-line commands produce reports specific to their Service.

The AFCAS 2022 results were [published on 19 May 2022 on GOV.UK](#)

### **Determining workforce numbers and achieving targets, whilst retaining skills**

Workforce Plans are an integral part of the Departmental planning and resource allocation process. With the exception of a small number of specific targets for the Services set out in the Integrated Review, Front Line Commands and other Top Level Budget areas have been allocated workforce cost envelopes and provided the freedoms and flexibilities to optimally design their whole force workforces to deliver Defence outputs. This new approach has come with a heightened holding to account regime to assure TLB workforce plans and the balance across affordability, output and workforce. This is a marked change to previous workforce volume input controls.

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Defence framed its Civil Service 2025 (CS 25) response to reinforce the workforce cost envelope approach (rather than Full Time Equivalent) as our contribution to this exercise, whilst recognising that a significant proportion of our civilian workforce is supporting the IR and operations. As I indicated, the Department illustrated a 7.5% reduction – which we judged to be manageable while delivering the outputs set for us in the Integrated Review – as well as the progressive impact of potential higher levels of reduction. We await to see how this exercise will be taken forward across Government this autumn. However, while that develops, I am keen we use the work as a catalyst for improvements in how we run and manage the department. This includes making further progress in our corporate services transformation (shared services) alongside wider simplification, automation, layering and the Digital Transformation of Defence. I would be happy to provide an update as plans develop.

On skills, Defence is taking forward a number of whole force workforce ‘sprints’, especially on those capabilities with the most demanding whole force skills challenges - these are currently Cyber, Science & Engineering, Nuclear, Digital Data and Technology and Project Delivery.

### **Army recruitment and the labour market**

The Army’s Recruiting Partnership Project (RPP) with Capita continues to sustain a strong performance, achieving 100% of the Regular Direct Entry officer and 98% of the Regular soldier demand targets in Recruiting Year 2021/2022. Following the close-down of the Defence Recruiting System (DRS) on 14 March 2022 the recruiting operation has now reopened, DRS has received additional protections and the national marketing campaign launched on 1 July 2022. This is the next iteration of the ‘This Is Belonging’ recruitment campaign which is designed to champion the resource at the heart of its operations – the soldier. The campaign highlights the cutting-edge technologies that make the British Army one of the best in the world, but with focus on their most important asset – their people.

Army recruiting will be part of the future Armed Forces Recruiting solution being delivered by the Armed Forces Recruiting Programme (AFRP), with the service due to commence April 2025. In light of this Army have entered into negotiations with Capita to explore how they bridge the gap and maintain inflow for the period 2024-2025, and how this can best be delivered. The Army has every confidence that the lessons, innovative policies and delivery measures that have helped deliver recruiting success in recent years will remain embedded within the operation. Open sharing of these lessons by the Army with the AFRP team is part of a routine dialogue that helps strengthen the transitional bridge to tri-Service recruiting under AFRP.

In June of this year the Army was once again recognised as the best apprenticeship employer in the country, which showcases the scale, reach, diversity, and quality of the apprenticeship programme, whilst reinforcing the variety of employment, available trades, and development opportunities for those seeking to join. 95% of soldiers enrol on

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apprenticeships making the Army one of the biggest apprenticeship employers in the country.

### **The Committee's report on the Equipment Plan 2021 to 2031**

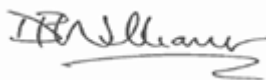
Let me end where the hearing and your letter started. With regard to the Secretary of State's comments on the Committee's report on the Equipment Plan, I understand his position to be very clearly that he disagreed with the Committee's conclusions, as set out subsequently in the Minister for Defence Procurement's letter to you of 21 June 2022. On the specific point of accuracy, the Secretary of State was particularly focused on the Committee's conclusions on Chinook which he considers were inaccurate because they were based on out-of-date information. While he notes the Committee's position on this, from his point of view, out of date information is still incorrect and does not recognise the progress that has been made, even in the relatively short period of time since the National Audit Office's report.

### **Accounting Officer Assessments**

Finally, although not covered in the hearing, I would like to update you on the Department's approach to Accounting Officer Assessments. The expansion of the Government Major Projects Portfolio has resulted in an almost doubling of Defence membership and we remain the largest contributing department with 54 out of the 235 major programmes. Previously established portfolios, such as the Nuclear Weapons Capability Sustainment Programme and the Complex Weapons suite of programmes, were subject to a single Accounting Officer Assessment but have now been broken out and it is now necessary to undertake an assessment of their constituent projects and programmes.

Whilst recognising the importance of the Accounting Officer Assessments, it is my intention to take a phased approach to the release of their summaries, and those of more long-established programmes within our portfolio, aligning the release with their next approval point. I judge this will be of most use to the Committee in its scrutiny of our project delivery. By taking this approach, which means we can ensure that the assessment reflects the very latest project position and performance, I expect to provide the Committee with the majority of the outstanding assessment summaries by the end of 2022 and all of them by the end of the Financial Year.

Yours sincerely,



**DAVID WILLIAMS**