



Public Accounts Committee

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Ministry of Defence Update

Dear Mr Williams,

Thank you for giving evidence to the Public Accounts Committee on 22 June 2022 on a wide range of topics. We will not be publishing a report on this occasion, but I am writing to put on record specific points of concern to us and to request some further information.

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

We remain concerned about the Department's claims that our recent report on Equipment Plan 2021 contained inaccuracies. As we discussed during the evidence session, we received a letter from the Minister of State for Defence Procurement, dated 21 June, which set out disagreements with some of our report's conclusions, but not any factual inaccuracies. You told us that you were content with the factual accuracy of the NAO's report – on which our report was based – and that you did not see the Department's press office tweets before they were issued. Instead, you said that some of the data in our report had become out-of-date because of how long it took you to publish last year's Equipment Plan, rather than it being inaccurate. As we requested, it would be helpful if we could have a letter setting out why the Secretary of State subsequently told the House of Commons that our report contained numerous inaccuracies, if that is his opinion, as opposed to timing issues or differences of interpretation.

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

We asked how and when the Department was learning lessons from the conflict in Ukraine, in terms of the equipment that you need and the stockpiles that you hold. You told us that you intended to take some early lessons into this year's equipment planning round, but wider changes may need to wait for the next Integrated Review and Spending Review. In terms of stockpiles, including levels of munitions, you explained that the Department would look hard at its planning assumptions and test whether its current targets provide the level of resilience that is needed in conflict scenarios. As part of this, you told us that you were examining the sustainability of the supply chain and its ability to replenish stocks.

You explained that the Department had provided training support to the Ukrainian armed forces since 2015 and, more recently, specific training on equipment donated by allies. The next phase of the training support is ready to launch and you will train 10,000 soldiers in basic infantry skills. You explained that the Department will receive an additional £1.3 billion from the special reserve this year



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to support operations and replenish stock, and that you mainly expected to use existing procurement processes. The additional funding is for one year and the Department will need to hold further discussions with HM Treasury for any extra funding required beyond this year.

While recognising the need for time and perspective to understand the implications of the conflict, could you write to us setting out:

- when and how you will make decisions on modernising the equipment and the revised judgements on the level of munitions that our Armed Forces need;
- the financial implications of these decisions, in terms of both the additional cost of new capabilities and our continued support to Ukraine; and
- whether you will need new procurement processes and / or will be purchasing new types of equipment or stock.

Managing the pressures on nuclear enterprise budgets

We have raised concerns on a number of occasions about cost growth in the nuclear enterprise and the arrangements that the Department has in place to control it. In particular, we noted our ongoing concern about the arrangements between the Department and the Treasury governing the use of the £10 billion contingency. You told us that these arrangements should be clearer by the autumn, in time for the forthcoming National Audit Office report on the Dreadnought programme to cover them. We look forward to seeing this issue clarified, including any additional contingency arrangements for the warhead programme.

Clarifying plans regarding F35s

We sought clarity on the number of F-35 aircraft that you intend to purchase, given that the Department's current order of 74 is considerably less than the 138 that it originally planned to buy. You told us that you had lost one aircraft but were unsure whether the Department would replace it. You thought this decision would form part of any consideration of the need to increase the number of aircraft in the future. Could you therefore write to us to provide clarity on whether the lost aircraft will be replaced; whether you have enough aircraft to deploy the carriers over their operational life; and the estimated whole life cost of the F-35 programme (including support and operating costs) and whether this is fully funded in your plans.

Impact of inflationary cost pressures on MoD

We asked about the impact of the current economic climate on the affordability of the equipment budget. In particular, we wanted to know how you were managing the consequences of high rates of inflation, the depreciation of sterling against the euro and dollar, high fuel prices and increases in wage



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costs. You recognised that inflation was your biggest financial challenge and would affect the affordability of the Plan but said that you did not yet fully understand its impact. You explained that you can seek to mitigate inflationary risks through forward purchases of currency and fuel; for example, purchasing 80% of gas and all electricity for the year. Despite this, you told us that you have still had to draw on contingency and put £200 million extra into the utilities budget. The Department can also mitigate risks through contractual arrangements, with around a quarter of its expenditure being through firm priced contracts, on which the contractor holds the financial risk. However, you recognised that financial and schedule risks remained, and that it was not in the Department's interests for contractors to struggle. The Department holds £4 billion of contingency in the Equipment Plan to mitigate the impact of financial pressures, as well as develop new capabilities in the future.

When you write to us, could you explain what analysis you have undertaken of the impact of inflation; the scale of the potential impact; and the extent to which you may need to use your contingency to cover these pressures.

Progress improving the condition of service accommodation

We remain concerned about the poor quality of some service accommodation and the Department's slow progress in addressing this. As you told us, the foundation for making progress is really understanding the state of the accommodation that you currently have. However, you admitted that only 20,000 of 100,000 Single Living Accommodation (SLA) spaces are on your much-delayed SLA Management Information System. Furthermore, although you said you have devised new standards for SLA, you do not plan to complete surveying its condition for two years, and work programmes to rectify the worst properties will not start until 2023-24.

You also explained that the Future Defence Infrastructure Services (FDIS) contract for Service Family Accommodation (SFA) began this April. You said that this was already delivering improvements, including more problems being fixed on the first visit, although you did admit you have had issues with one of the three contractors, such as missed appointments. However, you were unable to provide us with details of how payments to contractors would be affected if they failed to meet agreed customer satisfaction targets for work.

As discussed during the evidence session, could you write to us setting out details of:

- how you plan to survey the Single Living Accommodation estate, including your assessment of whether this could be speeded up; and
- what the key performance indicators are for FDIS, including customer satisfaction and work targets, and how these are linked to payments.



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Progress with reducing Service Family Accommodation voids

We asked you about the number of empty properties you hold and, in particular, whether your plans to reduce the number of voids should be more ambitious. You told us that in March 2022 around 17.85% of SFA was empty (8,557 properties), compared with a target of 10% (just under 5,000 properties). You said that you were questioning whether it is necessary to retain 1,760 void properties at receiver sites to accommodate unit moves to facilitate site disposals under the Defence Estates Optimisation Programme (DEOP). You told us that you would be looking at the number of voids as part of the signing-off process for your revised defence estates accommodation plan. However, you were unsure whether the Department had factored the planned reduction in the Army's size – from 82,000 to 73,000 – into its void calculation.

As discussed during the evidence session, could you write to us setting out how your revised plan will deal with voids, and in particular:

- how you will minimise wastefulness in relation to retaining void properties to facilitate unit moves as part of DEOP; and
- the impact of the planned reduction in the size of the Army on the number of void properties you need to retain.

Determining workforce numbers and achieving targets, whilst retaining skills

We asked about planned reductions of military and civilian workforce numbers. You told us that as yet there had been no change in plans to reduce the number of military personnel. However, you explained that the planned reduction of the Army by 9,000 had been formulated on a risk-based approach during the Integrated Review and you expected ministers would revisit the number, and the Army's deployability, in response to the Ukraine conflict.

You also explained that in addition to agreeing to reduce the civil service pay bill by 10% as part of the Integrated Review and Spending Review agreement, you have been asked to identify how you might reduce your civilian headcount by between 20% and 40% to contribute to the Government's ambition to return the size of the civil service to 2016 levels. You said that since 2016 the Department's civil service headcount had increased by 7.5%, as you have sought additional skills in areas such as nuclear and infrastructure and to help reduce the overall pay bill by employing civil servants rather than more expensive military personnel or consultants. You told us that if you are going to manage with fewer civil servants, you will need more freedoms and flexibilities to ensure that you can recruit and retain the people with the skills that you need. You also said you needed to successfully implement your transformation programme to modernise and automate the Department's approval processes and reduce bureaucracy.



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When you write to us, would you set out:

- your timetable for reviewing the number of military and civilian personnel that you require;
- when you expect to see the benefits of transformation, modernisation, and automation, and how you will measure these;
- what activities you might need to curtail to enable reductions of between 11,000 and 22,000 civil servants; and
- the main skill gaps you have in your military and civilian workforces, and how you might cost-effectively address these.

I would welcome your prompt response on the issues set out in this letter in time for circulation to Members of the Committee before the end of the parliamentary summer recess.

I am copying this letter to the Treasury Officer of Accounts and the Comptroller and Auditor General, and will publish it on the Committee website.

Yours sincerely

Dame Meg Hillier MP
Chair of the Committee of Public Accounts