

Underneath is the executive summary taken from the recently published Gray Report on MoD acquisition, and part of the response of the Secretary of State for Defence.

Procurement and support of military equipment consumes around 40% of annual defence cash expenditure and is of immense importance to the nation. The dedication of a wide group of individuals in attempting to deliver a complex programme of future capabilities while supporting our Armed Forces in current combat was apparent to the Review team throughout this work. The Department's commitment to improvement in acquisition is genuine and progress in some areas has been significant.

Nonetheless, the Ministry of Defence has a substantially overheated equipment programme, with too many types of equipment being ordered for too large a range of tasks at too high a specification. This programme is unaffordable on any likely projection of future budgets.

This overheating arises from a mixture of incentives within the Ministry of Defence. In particular, the Armed Forces, competing for scarce funding, quite naturally seek to secure the largest share of resources for their own needs, and have a systematic incentive to underestimate the likely cost of equipment.

Unfortunately the current system is not able to flush out at an early stage the real costs of this equipment, nor does it make effective prioritisation or rationalisation decisions. As the MoD almost never cancels an equipment order, the process of over-ordering and under-costing is not constrained by fear on the part of those ordering equipment that the programme will be lost.

Equipment plan construction is dominated by a "bottom up" aggregation process, which makes it hard for "top down" strategic guidance to control the balance of investment. Effective forums do not currently exist to allow top down guidance to control the evolution of the equipment programme.

With each force bidding for the highest specification product as a result of the system incentives, there is insufficient clarity over which systems need to be the most technologically advanced, and which could be used sensibly with an "80% solution" that would field a certain capability that could be grown over time. As well as increasing risk by encouraging great technical leaps, it also militates against making products exportable, since the most sophisticated products may not be affordable in many markets.

These forces and incentives create an over-large equipment programme, which contains within it a significant underestimate of the likely out-turn, making the programme even less affordable than it appears at any given moment in time. When this over-large and inflating programme meets the hard cash planning totals that the MoD can spend each year, the Department is left with no choice but to slow down its rate of spend on programmes across the board.

The result is that programmes take significantly longer than originally estimated, because the Department cannot afford to build them at the originally planned rate. They also cost more than they would otherwise, because the overhead and working capital costs of keeping teams within industry and the MoD working on programmes for a much longer period soaks up additional cash. The MoD also has to bear significant costs in running on old equipment because the new equipment is not yet ready for service.

Across a large range of programmes, this study found that the average programme overruns by 80% or c.5 years from the time specified at initial approval through to in service dates. The average increase in cost of these programmes is 40% or c.£300m. This study also estimates that the "frictional costs" to the Department of this systematic delay are in the range £900m - £2.2bn pa.

As well as costing significant sums, this squeeze on short-term cash expenditure in an effort to manage an over large programme has a number of other undesirable impacts. It reduces funds available for technology demonstration or risk-reduction activities, which might reduce risk in new procurements. It depresses spend in

areas such as Research & Technology, where by their nature, budgets tend to be committed less far ahead, and so are vulnerable to a cash squeeze.

Balancing this equipment programme, and keeping it in balance, is clearly a very significant objective of this report. As a result, the report recommends routine Strategic Defence Reviews, to be conducted in the first session of a new Parliament, as a mechanism to ensure periodic "resetting" of the MoD's plans. The report also recommends a set of detailed changes to keep the Equipment Programme on track between reviews.

The report also finds a blurring of roles and accountability between the "Capability" group, which specifies new equipment on behalf of the MoD, and the Defence Equipment and Support "Delivery" organisation, tasked with taking this specification and turning it into a procurement process. New tools, such as Through Life Capability Management, are designed to allow the MoD to manage and trade off attributes of its equipment, manpower and infrastructure, but they currently lack the hard financial data that would be required to make quantitative decisions.

The report makes recommendations to separate and clarify roles and accountabilities between the MoD Centre and the DE&S and to significantly improve the operation of TLCM.

Defence Equipment and Support, the MoD's delivery arm, also needs significantly greater skills and tools in a number of areas if it is to be able to deliver effectively on a better-balanced equipment plan. There is a need for a greater level of resources and skills in Programme & Project Management, Finance, Cost Estimating, Engineering and Contracting, as well as a need for better Project Management and Management Information systems.

When merging the Defence Procurement Agency and the Defence Logistics Organisation into DE&S, the MoD took the decision to remove the entity's next-steps agency status, and return DE&S to being part of the "core" MoD despite the DPA having achieved its targets on Performance, Cost and Time. This report is concerned by the reduced operational flexibility that this gives DE&S, and by a reduction in clarity that came from the customer-supplier split that the creation of the DPA had produced.

In analysing programme performance for this study, it was found that the programmes managed under the "Smart Acquisition" regime that was part of the creation of the DPA performed significantly better than previous programmes. This report is concerned that the disciplines that came from Smart Acquisition risk being lost under the newer governance arrangements.

Although much needs improvement in the planning and delivery of longer term requirements, it is notable, and to the DE&S's great credit, that the equipment acquisition system works best when needs are greatest. The UOR process, which is designed to provide battle winning equipment at short notice to current operations, appears able to deliver better trade-offs between performance, cost and time in the interests of ensuring that, by and large, the front line receives the right kit at the right time.

How best to inject key skills and tools into the DE&S organisation is the third main area of concern for this report. This report contends that the most effective way to achieve the objective of creating a world class programme management organisation in DE&S, would be through a partnership with a private sector programme management organisation, of the type operating in civil engineering and other complex engineering fields.

The suggested route to achieve this is through a Government-Owned, Contractor Operated entity. However, creation of such a Go-Co is a significant and controversial step, and this report recommends that it should be subject to further work over the next 12 months to ensure it does not cut across other defence objectives.

Finally, this report notes that similar pressures to those that exist in the new equipment programme also exist within the support of in-service equipment. The detailed nature of in-service equipment support, and the lack of time to delve into these issues, means

that this report has not sought to tackle this area in detail. It is recommended that significant further work be put in hand to analyse this area further and produce recommendations for further action. To read the full report, [click here](#)

Below is an edited version of the response by the Secretary of State for Defence, Bob Ainsworth MP to the publication of the Gray Report on Defence Acquisition. All countries with significant defence capabilities face the same inherent complexities of military acquisition and over many decades have had to deal with cost and time over-runs. Indeed, as the report says, many of our allies are complimentary about the UK's efforts to drive reform in this area and model their systems on ours. In the last twelve years, we have implemented a succession of initiatives to improve acquisition processes, including "Smart Acquisition", the Defence Industrial Strategy and more recently the Defence Acquisition Change Programme. These have had a significant impact on performance, as the National Audit Office has recognised in successive reports. At its best, my Department's project management is very good indeed. As the report observes, there are dedicated people at all levels in the Ministry of Defence, and among our suppliers, with a strong commitment to ensure the Services have the equipment they need to deliver success on current operations and in the future. The system works best when the need is most urgent. We have successfully provided 4.1 billion worth of equipment to theatre in Iraq and Afghanistan through Urgent Operational Requirements since operations began. Our people, military and civilian, can be proud of that achievement. And the Service Chiefs have made clear that our service personnel are never asked to undertake missions unless we are fully satisfied that they have the right equipment to do the job.

However, the Gray report also brings out, through analysis of a sample of individual projects, the problems which still persist. These include not only the tendency of programmes to cost more and take longer to deliver than was initially estimated, but the further cost growth to which this gives rise and the pressure it places on limited resources even in a period when the Defence Budget as a whole has grown substantially in real terms. It points to remaining skills gaps and to shortcomings in the existing arrangements for managing the equipment programme. And it argues for regular Defence Reviews to provide a strategic context for decisions on the equipment programme.

To some extent the difficulties we and others face in estimating the cost and time to deliver projects reflect the fact that much modern Defence equipment is at the leading edge of technology and is constantly having to adapt to meet evolving military requirements. Providing our Armed Forces with the best involves a degree of technological risk and uncertainty. But there are steps we can and must take, in the light of the Gray report, to build on earlier reform and deliver a radical improvement in performance.

First, I have already announced that we will undertake a Strategic Defence Review immediately after the General Election. Preparatory work is already underway, and I intend to publish a Green Paper early in the New Year. We will also examine legislative frameworks for implementing Bernard Gray's recommendation that a Strategic Defence Review be conducted early in the term of each new Parliament.

Second, we will work to adjust our equipment programme to bring it into balance with future requirements and the likely availability of resources, through the current planning round and in due course the Strategic Defence Review.

Third, we will plan equipment expenditure to a longer time frame, with a ten year indicative planning horizon for equipment spending agreed with the Treasury, and will increase transparency by publishing that planning horizon and an annual assessment of the affordability of our programme.

Fourth, we have already strengthened Board-level governance within the Ministry of Defence by establishing a new sub-committee of

the Defence Board, as recommended by Mr Gray, chaired by the Permanent Secretary as Accounting Officer and charged with determining, for agreement by the Board and Ministers, an equipment plan that is aligned with strategy, affordable and realistic.

Fifth, we will improve the way we cost projects in the equipment plan, using better and more sophisticated techniques applied more consistently, and ensuring that investment decisions are based on the most reliable available forecasts. We will also improve the management of risk across the programme.

Sixth, we will introduce stronger controls over the entry of new projects into the equipment programme, and over changes in performance, cost and timing of individual projects.

Seventh, we will sharpen the business relationship between Ministry of Defence Head Office, the Defence Equipment & Support (DE&S) organisation, and the Service Commands, by further clarifying roles and responsibilities, and by establishing new arrangements to provide greater visibility of project management costs in DE&S to the Capability Sponsor in Head Office.

Finally, we will accelerate the improvement of key skills (including in cost forecasting and programme management) in DE&S and the Ministry of Defence Head Office.

All of these changes are consistent with Bernard Gray's main recommendations. I do not intend to take up his suggestion to establish DE&S as a Government-Owned, Contractor-Operated entity, to put it more at arm's length from the rest of the Ministry of Defence. The Government has thought about this carefully, but we are not convinced that such a change would ultimately lead to better outcomes for the Armed Forces or Defence generally. Having the DE&S as fully part of Defence ensures a close working relationship with the military. Equipment acquisition is core business for my Department, and we have to get it right.

Based on these proposals, I intend to publish a wider, more detailed Strategy for Acquisition Reform in the New Year, to contribute to work on the Strategic Defence Review. I am delighted that Bernard Gray has agreed to work with us on this