

The Defence Major Projects Report 2007 provides information on the time, cost and performance of 20 of the Ministry of Defence's (MoD) largest military equipment projects where the main investment decision has been taken, as well as the top ten projects in the earlier Assessment Phase. The Committee of Public Accounts, the Parliamentary financial watchdog, has today issued an analysis and critique based on evidential hearings.

As in the Major Projects Report 2006, the MoD has primarily reduced the forecast costs for its top 20 projects by reallocating expenditure to other projects or budget lines. In 2007, it has reallocated £609 million, making a total of over £1 billion reallocated over the last two years. The MoD's rationale for continuing to reallocate budgets and expenditure is that it allows it to measure better the performance of individual teams in controlling their project costs, and to identify separately the costs of maintaining United Kingdom shipyards in accordance with the Defence Industrial Strategy White Paper.

Although the principle of allocating costs to those best placed to manage them is sensible for accountancy purposes, many of the same project teams continue to be responsible for the transferred budgets. In addition, there may not be a cost reduction for defence spending as a whole, and the MoD may have to forego activities, which it otherwise could have afforded. And such transfers mean that the forecast costs reported to Parliament do not give the full picture of the expenditure required to bring equipment into military service as they fail to include training and logistics support costs.

The MoD has estimated it needs to make payments amounting to £305 million to sustain the ship building industry. The MoD does not have any mechanism to check whether it is getting value for money from such payments. The onshore defence industry also needs an order for two new aircraft carriers. The contract award date has slipped, along with the decision on the preferred design on the new, medium weight armoured vehicles for the Army. Such delays to address short-term funding deficits can lead to higher costs throughout the life of individual projects.

Over the years, the MoD has not made sufficient improvements to deliver major military equipments to time, budget and quality. It needs to change the culture amongst its own staff and the industry from one of a 'conspiracy of optimism' to one of greater realism, providing adequate incentives to its staff to deliver genuine savings and make them properly accountable for their performance.

Edward Leigh MP, Chairman of the Committee, added his own criticisms: "The Ministry of Defence is trying to persuade Parliament that the forecast costs of major defence equipment projects are under control - by moving expenditure from those projects to other defence budgets. This is not acceptable: it diminishes Parliamentary accountability; and the transferred costs will doubtless have resulted in those budget holders who have taken them on having to cut their own defence activities."

"It is a well-established principle that delaying major equipment projects leads to higher costs in the long run. The MoD should identify lessons from the five and a half years it took to award the contract for the Royal Navy's two new aircraft carriers."

In the light of a long line of critical reports by our Committee, the MoD has made numerous reforms to its procurement working practices. Lasting improvements have not resulted. The MoD must address the systemic weaknesses underlying cost increases and time delays. There is a 'conspiracy of optimism' in the MoD and industry leading to the acceptance of unrealistically low estimates of the cost of bringing major equipment into service."