

The Public Accounts Committee published its 23rd Report of Session 2010-2011. This report on the Major Projects 2010, on the basis of evidence from the MoD, examined its progress in meeting cost, time and performance targets for its 15 top-spending military equipment projects. Progress made by the MoD on individual defence equipment projects, has been overshadowed by continuing failure on important major projects. Unaffordable decisions taken in the short-term have led to the inevitable waste of billions of pounds over time. In the wake of the Defence Review, the MoD has still to spell out if and how it has got its defence procurement budget under control.

In one previous hearing, where the focus was on only four projects, over £8 billion of taxpayer's money was identified, which had been written off or incurred simply for reasons of delay. The scale of the budget shortfall has pressurised the MoD into taking difficult decisions to cancel important military capabilities like Nimrod and Sentinel, thereby increasing operational risks and writing off nearly £5 billion. The Department has also taken short-term decisions to delay and re-scope individual projects to keep its in-year spending within the voted limits. Such decisions have been taken without a full understanding of the financial implications. The consequence has been hugely damaging; in just one year an increase of over £3 billion in the overall cost of the Department's major projects.

The MoD does recognise that it must tackle the problems which have affected defence procurement for decades; problems on which their predecessors in the Committee have commented extensively. If it does not, the cycle of failure will continue, with badly needed military capabilities suffering delay or being muscled out of the equipment programme by predictable cost increases or deliberate over-programming. Progress will require affordability being brought into central focus.

It has been reported before that the defence equipment programme is unaffordable with commitments exceeding forecast budgets over a ten year period by £36 billion. In 2011 alone the cost of the Department's major projects rose by £3.3 billion and nearly £5 billion was lost by late cancellations. The scale of problems made by this financial imbalance masks the improved performance of the majority of projects against cost and budget.

In October 2010, the Government published its Strategic Defence and Security Review (SDSR). The SDSR offered the Department an opportunity to bring its plans into balance with the

expenditure limits set in the Comprehensive Spending Review. The Department has now cancelled projects such as the Nimrod MRA4 and Sentinel aircraft, accepting greater operational risks in some areas and writing off nearly £5 billion of taxpayer's money. The decision to cancel the Nimrod, which is to be scrapped with £3.6 billion wasted, is one that will be looked into further. Looking beyond these headline decisions, implementing the SDSR will require the renegotiation or cancellation of a significant number of existing contracts to make the programme affordable. They will look to the MoD to demonstrate that it is now planning to remain within budget.

The Department has a poor track record in taking such decisions to optimise value for money. Responsibility and accountability for projects are often eroded by frequent changes of Senior Responsible Ownership. The Department failed to understand fully the financial consequences of the decision taken in December 2008 to delay the Queen Elizabeth Class aircraft carriers. In 2010, the Department reported a further cost increase of £650 million, bringing the total extra cost on the aircraft carriers to £1.6 billion. The Comptroller & Auditor General's announcement that the National Audit Office will undertake a review of the Carrier project will no doubt be greatly welcomed. It is planned to take evidence on his report later this year to understand fully the circumstances in which key decisions were made and their consequences for value for money.

In 2004 the Department removed funding for Tranche 3 of its planned procurement of Typhoon aircraft from its budget in the full knowledge of the robust contractual obligations it was under. The decision was based on the perhaps overly optimistic assumption that other partner nations would also not wish to purchase the final tranche of aircraft, so the requirement would be waived. This was another poor decision which led to additional costs for the taxpayer and questionable benefit to our armed services by ordering extra aircraft to which we had become contractually committed. In 2009-10 the Department had to commit an extra £2.7 billion on the Typhoon project, including the purchase of 16 additional aircraft, to honour its commitments. The resultant cost increase has contributed to the £36 billion gap in the defence budget. Further evidence on the Typhoon project will be taken in the spring.

In our uncertain strategic environment, and constrained budget, the Department is right to think in terms of delivering the "80% solution" quickly. There is a history of altering planned numbers and capabilities of required equipment, which delays its entry into operational service. These factors often lead to significant cost increases, partly due to the rigidity of the contracts, and an increased risk that the equipment will become obsolete. Instead, procurement should deliver rapid and cost-effective equipment, enabling the Department to respond with more agility to changing operational needs. The Defence Board is the key decision-making body in the Department and it should test every proposal it receives to make sure it is realistic and does not hold undue risk, that is affordable within likely spending constraints and that there is sufficient flexibility to adapt if necessary.