

Written Ministerial Statement
15 October 2009

Independent Review Defence Acquisition

In December 2008, my predecessor asked Bernard Gray to undertake a review to identify improvements that we could make in the acquisition of Defence equipment. I am today publishing Mr Gray's report and placing a copy in the Library of the House. I am very grateful to Bernard Gray for the effort he has devoted to this, the analysis he has produced, and for his support in developing with my Department proposals to implement many of his recommendations.

This is not a new issue. As Bernard Gray's report highlights, 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.