

The Strategic Defence and Security Review

SDSR 02

Supplementary memorandum from the Ministry of Defence

Introduction

The House of Commons Defence Committee's report on Defence Equipment¹, published on 4 March 2010, asked for an update on the progress of the Defence Acquisition Reform Programme. This update to the successor committee is written by the new Government.

On 3 February 2010 the Ministry of Defence (MoD) published the Strategy for Acquisition Reform (SfAR). This major programme of change in significant part responds to issues raised in Bernard Gray's Review of Acquisition, published in October 2009. The Gray report's main findings were:

- Our long-term equipment plans are unaffordable and we need to make significant reductions to these plans;
- Delaying rather than cancelling projects, in order to meet short term affordability pressures, adds substantially to longer-term costs; and
- We could do more to improve the planning and delivery of individual projects.

MoD's overall response to the Gray report was two-fold: to use the Defence Review (now part of the Strategic Defence and Security Review, SDSR) to produce an affordable equipment and support programme; and through acquisition reform to ensure it remains strategically-aligned, affordable and achievable including by improving internal skills, management and decision-making.

The acquisition reform programme also addresses issues not covered in the Gray report including refreshing MoD's overall relationship with industry, and ensuring that acquisition supports other Defence priorities such as safety and sustainable development.

Implementation of the SfAR

Implementation of the Department's acquisition reform agenda remains on track. Following the change of Government, new Ministers have endorsed the programme of change in the SfAR, although they have also made clear that following the SDSR, they may wish to examine further, more fundamental reform of the acquisition process.

For the present, therefore, acquisition reform work remains focused on two priorities:

- In the short term, preparing for the difficult decisions that will need to be made in SDSR to bring the equipment and equipment support programme into better balance with available resources; and

· In the longer term, ensuring that, once this balance is achieved, the programme is managed so as to remain affordable.

Good progress is being made in both areas. The sections below explain the main developments since the SfAR was published. A brief summary of progress against individual elements of the reform programme is at Annex.

Implementation of the strategy continues to be overseen by a small central programme management team, reporting to the 2nd Permanent Secretary and to the new Minister for Defence Equipment, Support and Technology. The main risks are that over the coming months acquisition reform effort may be temporarily diverted by the pressing requirements of the SDSR and, in the longer term, that financial pressures may affect delivery of some elements of the programme.

Stronger top-level control

The Defence Board Sub-Committee on Equipment, which was created last year to oversee the strategic direction and affordability of the equipment and support programmes, is leading work to assemble better management information to inform decisions in the SDSR. The aim is to ensure that, in addition to high-level strategic analysis, Ministers have the best possible picture of financial, industrial and commercial aspects of the equipment programme. Work commissioned by the Committee to date includes a detailed analysis of the level of commitment in our larger projects, and the financial impact of cancellation, withdrawals or reductions.

The Committee is also leading work to define the management information structure needed to ensure effective management and control of the equipment and support programmes in the longer term. The Department has also mandated the use of independent costing in all projects costing over £100M, and a more disciplined framework for the conduct of acquisition business (see below).

Improved acquisition skills

We remain on course to enhance key acquisition skills, notably in cost assurance, finance, technical assurance and programme and project management, including through establishing partnering arrangements with private sector suppliers. Plans to invest a further £45M for this purpose over the next four years are on-track. Bids have been sought from potential private sector partners for the cost assurance and estimating function which is fundamental to improving the Department's overall acquisition performance. Defence Equipment and Support (DE&S) are also developing an initial package of work to identify how best to further improve programme and project management skills; develop an engineering skills strategy; and strengthen financial skills. Work is also in hand to improve acquisition skills among military personnel working in this field.

Increased transparency

An innovation in the SfAR was the commitment to publish an assessment of the costs and affordability of the equipment programme, together with an independent audit from the NAO of the affordability assessment. We have agreed with the NAO much of the framework by which their audit will be conducted, and NAO staff are building up their understanding of MoD process by observing relevant aspects of MoD's current Planning Round.

Greater control over the Equipment Programme

In March stronger controls were established on the entry of projects into the equipment programme. A formal Project Start Up and Foundation Milestone process has been agreed that will ensure that projects are more closely scrutinised from the outset, for requirement, technical viability, risk, affordability, deliverability and other factors. These criteria need to be met before a project is formally accepted into the equipment programme. And there will be a foundation process undertaken by DE&S to ensure all the issues around practical project delivery are taken into account at the outset.

Improving internal relationships

To improve internal business discipline, an internal Terms of Business Agreement (TOBA) was launched on 26 April that sets out the roles and responsibilities of, and business rules to govern the relationship between Head Office, DE&S and the Front Line Commands. Senior champions have been established in the key business areas to oversee its implementation and to ensure that it is underpinned by improved ways of working and behaviours. We will be reviewing the effectiveness of the TOBA in the autumn.

Improved management of technology and innovation

The MoD has reformed its in-house Science & Technology capability with the formation of the new Programme Office within the Defence Science and Technology Laboratory (Dstl) earlier this year to deliver greater efficiency and coherence. It is developing an "S&T Portal" that embeds Dstl technical expertise within DE&S delivery teams to provide informed access to the wider supply chain. A pilot is under development and is due to start in September 2010 and report in March 2011. The MoD also produced new, practical guidance to acquisition staff on systems architecture, and are working with industry to explore how the Department can ensure enduring access to the required information, processes and expertise to enable this approach to succeed.

Improved risk management

We are developing ways to improve our handling of risk within projects and across the equipment and support portfolio as a whole. A Risk Working Group has been established with representation from across planning and delivery communities to ensure a consistent, professional approach to risk. A common tool has been mandated for pan-acquisition risk management.

Transparency of full cost of delivery

Pilots have started in DE&S to ensure staff and other internal delivery costs are properly identified and linked to the overall costs of capability programmes.

Ministry of Defence

July 2010

Annex

Defence Acquisition Reform Programme Action Plan Update

| Ser. | Action | Update |
|------|--|---|
| | Legislate for Strategic Defence Reviews (SDRs) in every Parliament. | Agreement in principle reached. This may be taken forward through the Armed Forces Bill 2011, but Ministers may wish to wait until after the SDSR concludes before reaching a decision on the legislative vehicle in order to reach a more detailed view on the format of future Reviews. |
| | Publish audited assessments of affordability. | On track. We are developing the Terms of Reference with the NAO and they are engaged in Planning Round activity. |
| | Strengthen top-level oversight of the Equipment Programme. | On track. The Defence Board Sub Committee on Equipment is overseeing the strategic direction and affordability of the equipment programme. |
| | Control more closely what projects go in and out of the equipment programme. | Project Start Up mechanism now in force for all projects above the value of £100million entering the programme. |
| | Improve costing and management of risk. | On track. A common tool has been mandated for pan acquisition risk management. To ensure a consistent pan-MOD approach is taken, a Risk Working Group has been established within DE&S, with representation from across the planning and delivery communities. |
| | Put aside sensible levels of funding to deal with cost growth. | This will be considered as part of the SDSR and Planning Round work. As part of this, we are looking at improving risk management at the portfolio level. |
| | Examine the scope for managing technology and innovation better. | On track. We have reformed our internal Science and Technology capability, achieving greater efficiency and coherence. |
| | Ensure we remove as much unnecessary cost as we sensibly can from our equipment support plans, including through a Defence Support Review. | On track – also being taken forward through the SDSR. |
| | Improve Skills. | On track. Plan to invest £45 million in improving skills in key areas. Cost estimating: |

| | | |
|--|--|---|
| | | <p>We have mandated the use of the independent costing for</p> <p>all DE&S projects worth more than £100million. Recruitment action is in hand for additional 55 cost estimating and evaluating staff in the financial year 2010/11. The contracting process is underway for partnering with industry to improve costing skills.</p> <p>Programme & Project Management:</p> <p>DE&S are assembling a package of work to improve PPM skills.</p> <p>Systems Engineering:</p> <p>DE&S has developed an outline Engineering Strategy. Engagement with industry is planned for July.</p> <p>Finance:</p> <p>Recruitment action is underway for four additional SCS finance posts for deployment in key business areas.</p> <p>Capability Sponsor:</p> <p>Skills audit complete. Plan and recommendations under consideration.</p> |
| | <p>Explore how we can continue to raise the profile and status of acquisition as a career route for military personnel.</p> | <p>On track, through the Military Acquisition Stream project. This is scheduled to complete tasks by 31 March 2011.</p> |
| | <p>Improve the management information available to our decision makers.</p> | <p>Way ahead agreed. This includes a new governance structure to ensure better oversight and coordination of management information activities.</p> |
| | <p>Within the Defence Equipment and Support Organisation (DE&S) continue to get the best effect from our workforce and skills through better prioritisation of workload and more</p> | <p>Flexible Resourcing is rolling out across DE&S to enable more agile response to changes of customer priorities. Initial operating capability was achieved in November and a number of DE&S Operating Centres are now at Full Operating Capability. DE&S Board has re-prioritised resources towards those areas providing direct support to Afghanistan.</p> |

| | | |
|--|---|--|
| | flexible tasking. | |
| | Sharpen the business relationship between Head Office, DE&S and the Front Line Commands. | A Terms of Business Agreement (TOBA) was launched on 26 April with a number of 3* Champions nominated across the Department. |
| | Fund the costs of the DE&S staff involved in delivering equipment and services to the front line as part of the cost of what they buy. | On track. Pilots are underway. |
| | Look at the governance and management of acquisition, including the recommendations made in the Gray report. | This will be included in broader work on size and structure of Defence, to be completed following the SDSR. |
| | Continue to embed the Capability Management approach. | On track. Business Plan for Through Life Capability Management Programme Approach implementation 2010/11 endorsed by senior Governance Board. |
| | Continue with the DIS and then produce a new strategy on the same basis reflecting the outcome of the SDR. | We plan that a Defence Industrial Strategy will be published and prepared after the SDSR is published. |
| | Examine whether we are maximising the benefits of our relationship with industry, particularly in non-competitive sectors, and through long-term partnering arrangements. | Work with industry underway to identify additional approaches for improving Value for Money, incentivisation, and the way suppliers' costs / profits are calculated in non-competitive programmes by 2012. This will be part of the new Defence Industrial Strategy, which will follow on from the SDSR. |
| | Improve our ability to understand what the costs of goods should be. | On track – training to be completed by end September 2010. |
| | Assess the potential for export at the outset of a project's development. | Exportability considerations are now routinely considered as part of a project's 'start-up' criteria (see serial 4) and we are examining how we can factor exportability into future procurement plans. We are including exportability in wider SDSR work. |
| | Support improved safety management. | On track. A new MOD-wide safety strategy has now been introduced, and extensive work is in hand to |

| | | |
|--|--|---|
| | | explore all the lessons from the Haddon-Cave report into the loss of Nimrod XV230. This includes work to clarify the optimum relationship between MOD and industry in relation to safety risks. |
| | Introduce stronger mechanisms to ensure sustainable development issues are reflected across the acquisition process. | On track. MOD Sustainable Procurement Strategy launched 26 March 2010. Work proceeding on capability planning, training and risk assessment. Work to develop additional guidance on assessing sustainability in investment appraisals due to start during summer. |

[1] (Sixth Report of Session 2009-10 - HC 99)