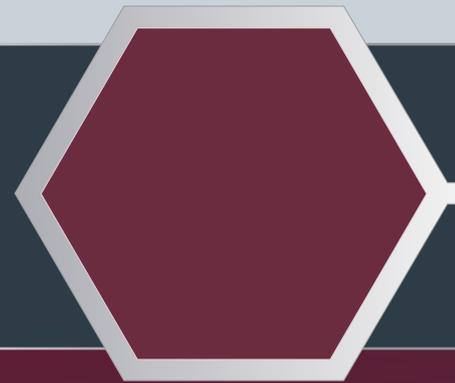




MINISTRY OF DEFENCE

Ministry of Defence

# The Defence Strategy for Acquisition Reform





# The Defence Strategy for Acquisition Reform

Presented to Parliament  
by the Secretary of State for Defence  
By Command of Her Majesty

February 2010

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# Foreword

## **Lord Drayson Minister for Strategic Defence Acquisition Reform**

Acquisition is vital for Defence. It equips and supports our Armed Forces so they can deliver success on the battlefield.

Acquisition of the scale and complexity required for Defence presents formidable and ever-increasing challenges. We have sought continually to improve our ability to meet those challenges. Previous reforms have tended to focus on shortcomings in the way some of our projects have been managed, and there is evidence of real improvement. This reflects the tireless dedication and professionalism of staff involved in acquisition across Defence.

But as they would be the first to recognise, there is more to do. Much more.

The scale of the challenge Defence acquisition still faces was identified in a recent review by Mr Bernard Gray. He concluded that the fundamental problem has been deep-seated cost pressures in the military equipment programme. We fully accept this analysis, and are resolved to take firm corrective action as part of the Strategic Defence Review (SDR), towards which our Defence Green Paper – published today – is a first step.

The SDR will update the framework against which military capabilities are planned. It will identify clear priorities to reflect today's strategic and operational circumstances. These will guide the hard decisions needed to ensure the future equipment programme is affordable. We have already taken the first steps to achieve this. We announced in December 2009 a range of measures to remove significant cost from our future programme, which also allowed us to reprioritise effort in support of operations in Afghanistan.

There is, however, further to go. And our commitment to making the difficult but necessary choices is one of our two main responses to the Gray report.

The other is a programme of major reform in our acquisition framework to ensure our equipment plans remain realistic, agile in response to changing military needs, and adaptable to the evolving strategic context. This strategy explains how we will tackle the substantial challenges involved, while also reinforcing existing reforms and achieving other Defence priorities.

The main elements of the strategy are measures to: ensure our equipment plans are – and remain – strategically aligned, affordable and achievable; improve internal skills, management and decision making; and strengthen our relationship with industry.

At the heart of the strategy is a radical commitment to greater public transparency by publishing annual assessments of the overall affordability of our equipment plans. That will bring into clearer, short-term focus the longer-term consequences of our decisions, and expose them to external scrutiny. This is the key to ensuring that the strategy as a whole delivers – and is seen to deliver – enduring change.

The strategy represents the next substantial step in the continuing process of acquisition reform. More importantly, it will deliver real and tangible improvement in the way we support our Armed Forces in the difficult tasks they undertake on behalf of the nation.

# Chapter 1:

## Overview



Armoured Engineers Squadron lifting bridge

- 1.1** Defence acquisition<sup>1</sup> is crucial to military success. It provides our Armed Forces with the battle-winning equipment, support, and infrastructure they need to defeat our enemies – current and potential. We spend approximately £20Bn annually on goods and services, around two-thirds of the total Defence Budget.<sup>2</sup>
- 1.2** Doing acquisition right – delivering what the front line needs, when it needs it, as efficiently as possible – has always been vital. And the priority and challenges of the operation in Afghanistan mean this is now truer than ever.
- 1.3** Acquisition isn't easy. It involves running large numbers of projects,<sup>3</sup> many of them big and complex. Many are also at the leading edge of technology and innovation. And meeting the needs of our Armed Forces while actual - as well as potential - adversaries constantly adapt their tactics and technology multiplies the challenge further.
- 1.4** It is a challenge the Ministry of Defence (MOD) has always embraced, and we compare well with other nations.<sup>4</sup> Nearly 90% of our equipment projects now deliver front-line needs to cost, and over 80% deliver them to time.<sup>5</sup> And when

our troops have an urgent need for new equipment we have the responsiveness to deliver this;<sup>6</sup> for example, the first deliveries of the new L129A1 Sharpshooter rifle, the first new infantry combat rifle to be issued to troops for more than 20 years, were made in January 2010, only two months after the order was signed.

- 1.5** But we need to keep the pressure on. The challenges are constantly evolving, and we have delivered a succession of reforms to our acquisition process,<sup>7</sup> each building on the last, and between them delivering significant improvement: more recent equipment projects show less tendency towards cost growth and time slippage;<sup>8</sup> we are taking a more holistic, ‘through-life’ approach to providing capability (Chapter 5); and we have a stronger and more mutually beneficial relationship with industry (Chapter 6). Some of these changes are relatively recent and the full effects are yet to feed through.
- 1.6** We fully recognise, however, that we need to go much further. In particular, we must strive for constant improvement in the acquisition of new equipment, especially in our larger and more technologically complex projects. We spend around £6Bn a year on equipment, and a further £5Bn on supporting it when in service.
- 1.7** Around 98% of our major projects deliver the operational performance needed at the front line. But they also tend to increase in cost – by an average of 2.8% each year.<sup>9</sup> And they suffer delay, averaging 5.9 months (though some for reasons beyond MOD’s control).<sup>10</sup>
- 1.8** We must do better, and deliver more of our projects to cost and time.
- 1.9** The difficulties we face in this area were considered in the independent report into Defence acquisition by Mr Bernard Gray, which we published in October 2009.
- 1.10** His sobering analysis, subsequently echoed by the National Audit Office (NAO),<sup>11</sup> was that our overall plans for new equipment are too ambitious, and need to be scaled down to match the funding likely to be

available. He also concluded that we must continue to improve the way we manage our equipment projects, both individually and as a portfolio.

- 1.11** We accept this analysis and, building on previous reforms, have framed much of this strategy around it.
- 1.12** But the strategy also covers other highly important objectives. We need an acquisition system that is responsive both to changing day-to-day operational needs, and to the gradually evolving global security climate. We also need to ensure acquisition plays its full part in delivering wider Defence priorities, including the safety of our people, and reducing the environmental impact of military training and operations. And if we are to succeed in all this, we need to make sure we have the right relationship with our suppliers.

## What do we aim to do?

- 1.13** Within the framework provided by the Department’s new Strategy for Defence,<sup>12</sup> our Strategic Aim for acquisition is to improve military capability<sup>13</sup> by managing acquisition better. In other words, we want to make better decisions about what equipment (and wider services) we buy, and how we ensure they are delivered on time, to cost and provide the desired performance; and in doing so, recognise and properly manage all the other strands (training, personnel, information, doctrine, organisation, infrastructure and logistics) needed to deliver and sustain battle-winning effect on the ground.

## How will we achieve it?

- 1.14** We will deliver our aim by taking action on several fronts, as described in the remaining sections of this strategy:
- Creating and maintaining equipment and support plans that are:

- firmly rooted in our overall Strategy for Defence;
  - affordable within likely resources;
  - agile and responsive to changing priorities; and
  - realistic about the costs and risks of what we plan to buy.
- Improving internal acquisition skills and capabilities.
  - Establishing clearer internal business arrangements.
  - Embedding a ‘through-life’ approach to managing capability.
  - Building a more active and transparent relationship with industry.
  - Making sure the whole of the MOD’s acquisition effort (both for equipment and other areas) fully supports wider Defence priorities, including safety and sustainable development.
- 1.15** We have established strong oversight arrangements, including at Ministerial level, to ensure the strategy is properly implemented.
- 1.16** The main strands of work under the strategy are summarised in the Annex.

## What will success look like?

**1.17** Success in acquisition ultimately rests on whether we deliver the equipment our Armed Forces need, when they need it, and to cost. This is not always a simple assessment to make; for example, we might be compelled by circumstances to exceed a project’s budget in order to deliver the required performance. We will, however, seek to develop better ways of measuring improvements in acquisition as part of implementing this strategy.

**1.18** But the overall success – or otherwise – of the strategy will be visible in more transparent ways. Two clear indicators will be that, following the planned SDR, we can:

- demonstrate each year, with independent audit, that we can afford our equipment and support plans (Chapter 2); and
- demonstrate much lower levels of cost growth and delay across our equipment programme. We have set hard targets that, on average, cost growth should not exceed 0.4% a year, and slippage should be under 0.8 months. We have also set targets to ensure the large majority of projects are managed within tolerable cost and time limits each year.<sup>14</sup>

**1.19** These are challenging goals, but given the improvements now planned – notably the commitment to establish and maintain an affordable equipment programme – we believe they are realistic.<sup>15</sup>

# Chapter 2:

## Affordable, agile and realistic equipment and support programme



Soldier preparing to launch a UAV

- 2.1** The world has changed markedly since the SDR in 1998, and as the Green Paper (published alongside this strategy) notes, our Armed Forces have undertaken over 100 operations since then. These include the major international operations in Bosnia, Kosovo, Macedonia, Sierra Leone, Iraq and Afghanistan. But military personnel have been deployed widely – from counter-piracy in the Indian Ocean to foot-and-mouth, counter-terrorism and search and rescue in the UK.
- 2.2** We have good systems for responding to urgent operational priorities, and we need to maintain and where possible improve on these. But the Gray report concluded that our main equipment plans were not sufficiently responsive to the rapidly changing nature of combat in the 21st century,<sup>16</sup> and to wider international security developments.
- 2.3** Our military commitments since 1998 have placed a strain on our resources. We have sometimes had to take difficult financial decisions to balance the books along the way. These did not always offer best value for money, especially when costs increased through delaying projects.

**2.4** Part of the problem of cost growth we have faced has come from not fully understanding at the outset what the costs and risks of a project might be.

**2.5** Tackling these problems will require difficult choices, particularly in the current financial climate. We can no longer set out to buy as much as we did previously. We need to be more firmly focussed on the central priorities flowing from the new Strategy for Defence and the SDR. We need to decide what is, and what is not, affordable in the context of our Defence and National Security Policies. And we need to ensure that our short-term budgeting takes account of long-term impacts.

**2.6 This will involve taking tough decisions and sticking to them. Having ensured that our plans are strategically aligned, affordable and achievable, we will ensure they remain so. These are the two most important commitments in this strategy.**

**2.7** To do all this we will:

- Legislate to ensure SDRs are conducted early in every Parliament. This will ensure that our equipment plans remain relevant and able to match changes in strategic circumstances. We will undertake realistic costing of these reviews to ensure decisions do not create problems for us later. We will also keep our plans under close review between SDRs to ensure they fully reflect emerging operational needs;
- Following the SDR, publish an assessment to Parliament each year of the costs and affordability of our equipment and support programme,

against a 10-year planning horizon agreed with HM Treasury. The NAO will independently audit the process we have used to produce that assessment;

- Strengthen top-level oversight of the equipment and support programme. A new senior committee chaired by the Permanent Secretary has already begun work to oversee the strategic direction and affordability of the equipment programme;
- Control more closely what projects go in and out of the equipment programme to give them the best direction, and basis for delivery, from the outset.<sup>17</sup> And be more active in identifying and dealing with projects at risk of cost growth or delay.<sup>18</sup>
- Estimate costs and risks more effectively (Chapter 3);
- Put sensible levels of funding aside to deal with cost growth in projects where it would not be sensible to cancel or descope. We must minimise the potential for problems in one project undermining others;
- Examine the scope for managing technology and innovation better so that we can provide and update defence equipment more quickly, and at a price we can afford. This includes using incremental and modular approaches<sup>19</sup> so that we can keep pace better with the evolving threats; and
- Ensure we remove as much cost as we sensibly can from our equipment support plans, including through a Defence Support Review.<sup>20</sup>

# Chapter 3:

## A more capable organisation



A Royal Air Force Chinook helicopter

- 3.1** As set out in Chapter 2, we aim to get better at managing our overall equipment plans and at delivering individual projects. We need to grow our capability to do so.
- 3.2** This means we need access to new skills, more modern techniques, and better management information. People working in Defence acquisition already have high levels of competence in what they do, and in some cases are truly world class.<sup>21</sup> But we need more and better skills to help us improve in priority areas such as better cost forecasting and commercial relationships. And our management information is not as comprehensive as it should be. We also need to be able to deploy our skilled people more rapidly to critical activities when priorities change.
- 3.3** To improve our overall capability, we will:
- Invest a further £45M over four years in improving skills and techniques. This includes increasing the skills and capacity of our cost estimators. They will work with new private sector partners to apply better and more sophisticated techniques. We will mandate the use of these techniques in costing all large projects to produce more reliable cost and risk estimates;

- Explore how to make further improvements to our project and programme management, including risk management. We will examine how outside expertise might assist us;
- Continue to improve our systems engineering abilities;
- Increase the skills of our financial staff;<sup>22</sup>
- Increase the skills of our commercial staff through higher levels of qualification and better business awareness;
- Audit the skills needs of our Capability Sponsor organisation<sup>23</sup> in the Head Office to determine what improvements might be required;
- More generally, determine those acquisition skills that need to be retained in-house (including those for MOD to remain an intelligent customer of industry – see also Chapter 7), and explore the scope for outsourcing those that do not;
- Explore how we can continue to raise the profile and status of acquisition as a career route for military personnel;
- Improve the management information available to our decision makers, so they can monitor progress and analyse options more easily. We want information that is common across all parts of MOD, and more reliable and swiftly available;
- Within the Defence Equipment & Support (DE&S) organisation, continue to get the best effect from our workforce and skills through better prioritisation of workload and more flexible tasking. We will co-locate staff to enable them to work together more effectively and reduce estate costs;<sup>24</sup> and
- Achieve this while maintaining the substantial staff reductions already in train.<sup>25</sup>



The Coyote Tactical Support Vehicle

# Chapter 4:

## Clearer ways of doing business



A Royal Navy officer with a Ministry of Defence civilian colleague at work at Abbey Wood near Bristol

- 4.1** Acquisition is complex. Many different parts of MOD need to work closely together to ensure acquisition delivers to the front line. Working in a cross-cutting way ensures that all relevant factors are reflected in acquisition decisions, but it can also create complexity and confusion.
- 4.2** We decided not to follow the Gray report's recommendation that Defence procurement be undertaken at arm's-length from MOD, possibly by a Government-Owned, Contractor-Operated (GOCO) entity. In our view, acquisition is core business for Defence and there is strong benefit from involving the military in the process, and from developing a more integrated approach to managing military capability. Both would be much harder under an arm's-length relationship.
- 4.3** We do, however, accept the force of Bernard Gray's arguments for a clearer and more business-like relationship between DE&S and the rest of MOD, and are taking a number of steps to bring greater clarity and discipline to our internal arrangements:
  - We have already sharpened the business relationship between Head Office, DE&S and the Front Line Commands by establishing a written Terms of Business Agreement between the parties that clarifies roles and responsibilities, and introduces a set of formal business rules;<sup>26</sup>

- Linked to this, we will ensure that new equipment and support requirements are specified more clearly to make successful delivery easier and that the foundations for successful project delivery are put in place from the start. We will also identify the full costs of delivering these requirements. This includes funding 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.<sup>27</sup> We need to do this without excessive bureaucracy; and
- We will look at the governance and management of acquisition, including the recommendations made in the Gray report.<sup>28</sup>

# Chapter 5:

## A through-life approach to managing capability



- 5.1** Battle-winning capability requires a carefully planned fusion of military personnel with the requisite training, equipment, information, doctrine, organisation, infrastructure and logistics. We need to think about all the issues from concept through to disposal. The up-front costs account on average for only around a third of the whole-life costs, and the fixed costs of support are generally high.
- 5.2** The through-life approach to managing capability aims to ensure that decision making takes into account all of the factors set out above. It brings together all those
- from across Defence who have a major role in delivering military capability.<sup>29</sup> They seek to take a holistic view of how this is done, weighing the desired capability against relevant technology, financial, industrial and commercial issues.
- 5.3** The through-life approach to managing capability was established in 2006, and is continuing to evolve. It has already delivered benefits,<sup>30</sup> but will take some time to achieve its full potential. In line with Government best practice, our approach has widened its focus from individual projects, to embrace 'programme management' - the co-

ordinated management of groups of related projects and activities.

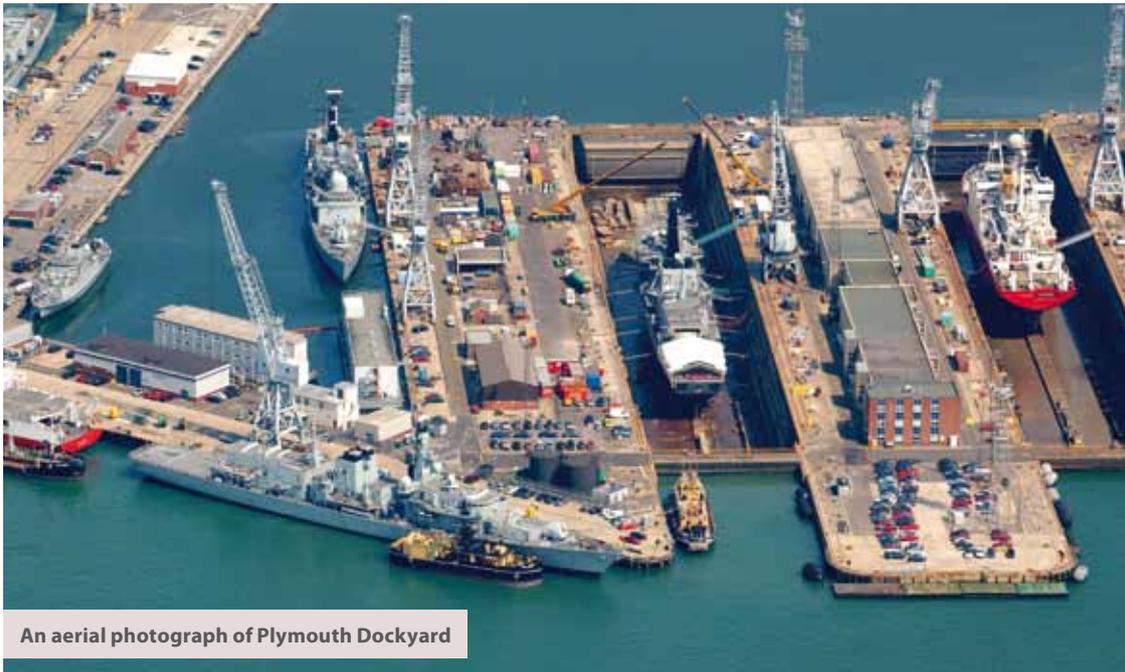
- 5.4** Currently the main limitation is a lack of reliable and consistent management information across all the disparate aspects the through-life approach seeks to unite. We also need to ensure that the approach is not unduly complex.
- 5.5** Our aim remains progressively to embed the through-life approach across Defence. This will encourage more effective and innovative solutions for providing military capability, and allow us to be responsive to changing circumstances.

**5.6** To achieve this we will:

- Develop the programme management approach we have instituted, as well as the tools and techniques to support it;
- Improve the information available and apply it in a pragmatic way, in order to drive improved decisions, better application of available funding, and more effective management of risks; and
- Simplify our processes to make the approach more accessible and the benefits easier to achieve.<sup>31</sup>

# Chapter 6:

## Improved relationship with industry



An aerial photograph of Plymouth Dockyard

- 6.1** We have contracts with around 29,000 suppliers but approximately 40% of the £20Bn we spend each year on acquisition is with just ten companies. So managing the industrial aspects of Defence acquisition requires a broad, flexible and long-term approach, that works in relation to both major contractors and small and medium-sized enterprises.
- 6.2** Our 2005 Defence Industrial Strategy (DIS) set out how we would engage with industry on the acquisition of equipment, support and services.<sup>32</sup> Significant progress has been made in implementing the DIS across the key industrial sectors.
- 6.3** We will develop and refresh this approach as part of the SDR, as well as addressing a number of other high-level policy choices we face in our future relationship with industry. These are explained in the Green Paper published alongside this strategy in preparation for the SDR.
- 6.4** Whatever the outcome of the SDR, it is clear that our supplier base, and our relationship with it, is changing. Acquisition reform needs to reflect this. And industry needs to play its full part in helping to address the problems this strategy is seeking to tackle.

- 6.5** The number of specialist providers continues to reduce and the remaining companies tend to be more global in outlook. The level of non-competitive business with our largest suppliers has increased,<sup>33</sup> and we therefore require new kinds of relationships, underpinned by different skills and methods, to ensure value for money.
- 6.6** The move in recent years by MOD into more long-term partnering arrangements with suppliers has meant industry becoming more deeply involved in Defence activity, including providing services on operations. These agreements maintain essential industrial capability through an agreed and sustained level of work, in return for reduced costs.
- 6.7** But these new kinds of relationships bring risks if they do not have sufficient flexibility built into them to deliver increasing value for money or meet our changing needs. As highlighted in the recent review by Mr Charles Haddon-Cave into the loss of Nimrod XV230 in 2006,<sup>34</sup> there are risks to safety if we do not establish and manage such relationships properly (Chapter 7).
- 6.8** Exports can also increase value for money as additional sales revenue reduces the overheads borne by MOD. We are considering whether we can do more to enhance the potential scope for exports in the early stages of a project - for example by not specifying requirements that are too expensive or complex to interest overseas customers.
- 6.9** Our overall aim is to embed a more active and transparent relationship with industry. That means it needs to be effective, efficient and secure. And we need to provide industry with greater long-term certainty so that it can make future investment decisions that also support UK interests. The SDR will establish a robust long-term equipment plan that will enable this.
- 6.10** As well as considering various policy choices set out in the Green Paper, we will:
- Continue with the current DIS and then produce a new strategy on the same basis reflecting the outcome of the SDR;
  - Consider the changing global industrial landscape and its implications for Defence acquisition;
  - Examine whether we are maximising the benefits of our relationship with industry, particularly in non-competitive sectors, and through long-term partnering arrangements. This will include improving our ability to understand what the costs of goods and services should be, and how better to incentivise cost reduction and value for money in long-term contracts, especially those awarded in the absence of competitive pressures;
  - Investigate whether we have the right relationship with industry, specifically in relation to safety (Chapter 7) and contractor support on operations;
  - More systematically assess potential for export at the outset of a project's development; and
  - Do all this in close consultation with industry, taking account of the concerns and priorities they have already expressed to us.

# Chapter 7:

## Supporting Defence priorities



Members of HMS Edinburgh's Fire Party prepare to enter the quarterdeck during an exercise

- 7.1** As well as delivering the operational needs of the front line, acquisition also plays a crucial role in delivering wider Defence and Government objectives and policies.
- 7.2** We will do more to make safety a stronger and more prominent feature in acquisition. We need to ensure we set our requirements for equipment with its safe operation firmly in mind. And when equipment is in-service we need to know the limits within which it can safely be operated, and use intelligent risk-management techniques to mitigate any potential hazards. If we get this wrong, the consequences can be tragic.
- 7.3** Sustainable development is a key priority for government,<sup>35</sup> and needs to be embraced in all areas and stages of acquisition. In particular, as a major landowner<sup>36</sup> and user of fossil fuels, MOD needs to make a very significant contribution over the coming years to delivering the Government's challenging sustainable development and carbon reduction targets.<sup>37</sup> Improvements in the design and operation of military equipment will be vital in achieving these. Greater fuel efficiency or alternative energy sources can also bring through-life cost savings, and provide greater operational

flexibility (for example, by reduced reliance on re-supply lines).

**7.4** Deciding whether to acquire equipment in collaboration with other countries has crucial ramifications for its performance, cost and timescale. It often has important implications for international Defence relationships more generally, and for the Government's wider foreign and security policies. We need to make sure all these issues are properly weighed in reaching final acquisition decisions.

**7.5** In all these areas, and in others such as security, information assurance, and promoting exports, the crucial factor is to ensure that issues beyond the traditional parameters of performance, cost and time are identified and fully assessed at a very early stage in a project's life – before fundamental design decisions are taken.

**7.6** To achieve all this, we will:

- Build and embed a stronger safety culture and reinforce safety assurance and regulation procedures across acquisition. We will also look at how best to develop and retain MOD staff with the right safety-related skills;

- Re-examine our relationship with industry on safety matters, in the light of the Haddon-Cave report. In particular, we will conduct a review to ensure roles and responsibilities are properly understood, and that MOD is able to act as a full 'intelligent customer';
- Introduce stronger mechanisms to ensure sustainable development issues are reflected throughout the acquisition process; and
- Establish firm arrangements to make sure that the acquisition process as a whole takes due account, at an early stage, of all relevant wider policies and priorities, and that issues which cut across more than one area of acquisition are handled coherently.

**7.7** These arrangements will be overseen at Defence Board-level by the 2nd Permanent Secretary in the MOD, who is also responsible to the Board and to Ministers for ensuring the successful delivery of this strategy.

# Annex:

## Implementing the Strategy

Significant progress has been made towards implementing the strategy set out in this paper. But a large amount of work is in train or planned to start shortly. The many workstrands will be co-ordinated and managed centrally under a Defence Acquisition Reform Programme, overseen by the 2nd Permanent Secretary in the MOD, and reporting to the Minister for Strategic Defence Acquisition Reform.

The table below briefly summarises some of the major areas of implementation work. Where this has not yet been completed, clear plans and firm timetables are in place for how these will be delivered. We have used asterisks to indicate those actions which were part of the “8-point plan”<sup>i</sup> we announced on 15 October 2009 when we published the Gray review of acquisition.

Strategy Reference	Strategic Intent	Actions
Chapter 2	<p><b>A more agile and adaptable acquisition framework</b> Legislate for Strategic Defence Reviews (SDRs) in every Parliament.* Keep plans under close review between SDRs.</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Legislative vehicle identified – Armed Forces Bill 2011.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Draft relevant policy instructions.</li> <li>● Armed Forces Bill to receive royal assent by end 2011.</li> <li>● We envisage that the Strategy for Defence and Defence Strategic Direction issued following the future SDR would be refreshed at the two year mid-point between defence reviews.</li> </ul>
Chapter 2	<p><b>Publish affordability assessment*</b> Following the SDR, publish an assessment to Parliament each year of the cost and affordability of our equipment and support programme, against a new 10 year planning horizon agreed with HM Treasury, and have process audited by NAO.</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Proposal agreed with Ministers, HMT and Cabinet Office - Oct 2009.</li> <li>● Agreement obtained from NAO to audit process used to cost the programme – Jan 2010.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Engage with NAO to develop the detail of how the audit will be conducted - by Jun 2010.</li> <li>● Agree the 10 year planning horizon as part of the SDR.</li> </ul>
Chapter 2	<p><b>Strengthen top-level oversight of the equipment programme *</b> Establish the PUS-chaired Defence Board Sub-Committee for Equipment (DBSCE) to oversee strategic direction and affordability of the programme.</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● DBSCE Terms of Reference issued and approved - Oct 2009.</li> <li>● First meeting took place Nov 2009.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Further meetings have been scheduled.</li> <li>● Work in hand to address issues and priorities already identified by the DBSCE in preparation for the SDR (including work to improve management information)</li> </ul>

Strategy Reference	Strategic Intent	Actions
Chapter 2	<p><b>Control more closely what projects go in and out of the equipment programme *</b> Develop criteria to govern how projects enter the equipment programme; addressing problems earlier and cancelling those that are unachievable</p>	<p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Project Initiation Controls being developed (by Mar 2010) to ensure projects are more closely scrutinised, from the outset, for requirement, technical viability, risk affordability, deliverability etc, before formal acceptance into equipment programme.</li> <li>● Implementation of these controls from mid Mar 2010.</li> </ul>
Chapter 2	<p><b>Improve costing and management of risks*</b> In particular, estimate equipment &amp; support programme costs and financial risks more effectively.</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Risk working group established, involving representation from the planning and delivery communities. Work in hand on a range of issues and priorities already identified.</li> <li>● Common tool for pan-acquisition risk management mandated across Defence.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Paper on financial data fidelity prepared for Defence Board Sub Committee on Equipment by Apr 2010.</li> <li>● Improvements to cost estimation through partnering with the Private Sector (see skills item below)</li> </ul>
Chapter 2	<p><b>Put aside sensible levels of funding to deal with cost growth</b></p>	<p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Develop methodology (including engagement with NAO) to ensure an appropriate level of contingency in place when the equipment programme is finalised after the SDR, drawing on the work on risk management.</li> </ul>
Chapter 2	<p><b>Examine the scope for managing technology and innovation better</b></p>	<p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Options to be considered through the SDR, which may include:</li> <li>● Further expanding the breadth of engagement with the supplier base on open systems architecture and rapid decision-making;</li> <li>● Developing agile business models that maximise return to investors and improve Defence exploitation of technology; and</li> <li>● Building a more coherent science and technology community across the Defence community to improve ways of working.</li> </ul>

Strategy Reference	Strategic Intent	Actions
Chapter 2	<p><b>Ensure we remove as much unnecessary cost as we sensibly can from our equipment support plans, including through a Defence Support Review</b></p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Review of support arrangements conducted including looking at examples of best practice.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Defence Support Review Report issued internally Feb 2010. Further workstreams to review the priorities identified by Jun 2010.</li> <li>● Projects become normal business, formal review closes down by Sep 2011.</li> </ul>
Chapter 3	<p><b>Improve skills *</b> Ensuring that we have sufficient skills, of the right quality, including through:</p> <ul style="list-style-type: none"> <li>● Delivering the existing PACE upskilling programme</li> <li>● Establishing a Strategic Partnering relationship with the private sector to improve core acquisition skills.</li> <li>● Auditing skills of Capability Sponsor organisation in Head Office to determine what improvements might be required.</li> </ul>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Conduct an Assessment Phase (AP) of the DE&amp;S Strategic Partnering approach (benefits, risks, costs) - Dec 2009.</li> <li>● Earmark a further £45M over four years for improving skills and techniques in DE&amp;S.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Comprehensive skills audit across MOD Capability Sponsor due to complete by mid Mar 2010.</li> <li>● Continue existing DE&amp;S upskilling programme.</li> </ul>
Chapter 3	<p><b>Explore how we can continue to raise the profile and status of acquisition as a career route for military personnel</b></p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Military Acquisition Stream (MAS) set up to promote the role of military personnel in acquisition. Specific reforms and innovations have been identified.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Ensure that MAS innovations are embedded and sustainable beyond life of Implementation Team by Mar 2011.</li> <li>● Complete core acquisition job specifications by May 2010.</li> <li>● Extend MAS training to acquisition-related posts by Oct 2010.</li> </ul>
Chapter 3	<p><b>Improve the management information available to our decision makers</b> Define the Management Information requirement for the DBSCE and other key decision-making bodies; and establish a common framework (definitions, tools and systems) for management information</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Common Finance and Defence Risk tools mandated for pan-acquisition risk management – Dec 2009</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Develop common formats and implementation plan by end Mar 2010.</li> <li>● Ensure MI evolves in line with DBSCE requirements (ongoing).</li> </ul>

Strategy Reference	Strategic Intent	Actions
Chapter 3	<p><b>Within the DE&amp;S, we will continue to get the best effect from our workforce and skills through better prioritisation of workload and more flexible tasking.</b></p> <p>To be taken forward through the PACE programme (see end note 24).</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Flexible Resourcing in service date achieved Nov 2009.</li> <li>● Collocation - 2,000 staff relocated.</li> <li>● DE&amp;S Operations Centre opened Jan 2009.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Flexible Resourcing programme reaches full operating capacity by Dec 2010.</li> <li>● Abbey Wood new build complete Aug 2010 ; Collocation complete by Mar 2012.</li> </ul>
Chapter 4	<p><b>Sharpen the business relationship between Head Office, DE&amp;S and the Front Line Commands *</b></p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Internal Terms of Business Agreement (TOBA) to clarify internal roles and responsibilities and set out business rules prepared - Feb 2010.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Review TOBA as part of SDR – Summer 2010. Strengthen where necessary.</li> </ul>
Chapter 4	<p><b>Fund the costs of the DE&amp;S staff involved in delivering equipment and services to the front line as part of the cost of what they buy</b></p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● Process agreed by Programme Delivery Cost (PDC) Governance Board – Jan 2010.</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Pilot review stages to be completed – Jul and Oct 2010</li> <li>● Full roll-out decision point – Nov 2010</li> </ul>
Chapter 4	<p><b>We will look at the governance and management of acquisition, including the recommendations made in the Gray report</b></p>	<p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Review overall acquisition governance model and embed reform programme structure Mar 2010</li> <li>● Review DE&amp;S governance and management - Jun 2010.</li> </ul>
Chapter 5	<p><b>Continue to embed the Through Life Capability Management (TLCM) approach</b> Develop the programme management approach we have instituted, as well as the tools and techniques to support it.</p>	<p><b>Actions completed</b></p> <ul style="list-style-type: none"> <li>● OGC Health-check completed</li> </ul> <p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Publication of Capability Delivery Guidance - Apr 2010</li> <li>● Initial management Information provision to Programme Boards - Mar 2010</li> <li>● Establish optimum role and owner for the Programme Support Functions (PSF) - Mar 2010</li> <li>● Review Capability Goals and conduct Capability Audit - Apr 2010</li> </ul>
Chapter 6	<p><b>Continue with the DIS and then produce a new strategy on the same basis reflecting the outcome of the SDR</b></p>	<p><b>Actions in-train/planned</b></p> <ul style="list-style-type: none"> <li>● Continue development and implementation of the DIS sector strategies (strategies for managing particular industrial sectors).</li> <li>● DIS 2005 to be updated as part of SDR.</li> </ul>

Strategy Reference	Strategic Intent	Actions
Chapter 6	<b>Examine whether we are maximising the benefits of our relationship with industry, particularly in non-competitive sectors</b>	<b>Actions in-train/planned</b> <ul style="list-style-type: none"> <li>● Work with industry to identify additional approaches for improving value for money, incentivisation, and the way in which suppliers' costs and profits are calculated in non-competitive programmes: by 2012.</li> </ul>
Chapter 6	<b>Improving our ability to understand what the costs of goods should be*</b> To be taken forward using 'should cost' methodology.	<b>Actions in-train/planned</b> <ul style="list-style-type: none"> <li>● Assurance and scrutiny guidance revised to mandate that 'should costings' are included in business case requirements to support Investment Approvals Board –Jun 2010.</li> <li>● Improve staff skills and understanding in the use of 'should cost' techniques - Jun 2010.</li> </ul>
Chapter 6	<b>Assess potential for export at the outset of a project's development</b>	<b>Actions completed</b> <ul style="list-style-type: none"> <li>● Ministerial discussion with National Defence Industry Council representatives – Jan 2010.</li> </ul> <b>Actions in-train/planned</b> <ul style="list-style-type: none"> <li>● Include assessment of export potential as part of Project Initiation work (see project control item above).</li> <li>● Consider mechanisms for incentivising exportability.</li> </ul>
Chapter 7	<b>Build and embed a stronger safety culture, and reinforce safety assurance and regulation procedures</b> <ul style="list-style-type: none"> <li>● Safety is built into equipment at the requirement-setting stage</li> <li>● The safety envelope is clear for each piece of equipment</li> <li>● Utilise intelligent risk management to mitigate potential hazards</li> </ul>	<b>Actions completed</b> <ul style="list-style-type: none"> <li>● MOD response to Haddon-Cave report published - Dec 2009.</li> </ul> <b>Actions in-train/planned</b> <ul style="list-style-type: none"> <li>● Scoping Study on wider implications of the Haddon-Cave review will report to the Defence Environment and Safety Board (DESB) in Feb 2010. We will look at: interface with industry; safety cases; personnel; culture; independent regulation; responsibility and accountability; and governance.</li> <li>● Formal examination of MOD's relationship with industry on safety issues. Timescale to be established by the DESB.</li> </ul>
Chapter 7	<b>Introduce stronger mechanisms to ensure sustainable development issues are reflected across the acquisition process</b>	<b>Actions in-train/planned</b> <ul style="list-style-type: none"> <li>● Incorporate sustainable development principles in capability planning - Sep 2010</li> <li>● Roll out a sustainable development risk assessment tool for use by Project Teams - Sep 2010.</li> <li>● Develop additional guidance on assessing sustainability in investment appraisals - Mar 2011.</li> <li>● Commence roll out of advanced sustainable procurement training - Jan 2011.</li> </ul>

# End Notes

- 1 Acquisition is how we work together with industry to provide the necessary military capability to meet the needs of our Armed Forces now and in the future. It covers the setting of requirements; the selection, development and manufacture of a solution to meet those requirements; the introduction into service and support of equipment or other elements of capability through life, and its appropriate disposal. It is supported by business processes such as requirements management, project and programme management, investment approvals, contract negotiating and management and safety management.
- 2 This is an average figure over the last five financial years. This estimate is derived from data used to prepare Table 1.17 of UK Defence Statistics 2009 and similar tables in previous years. This figure includes all equipment and non-equipment costs.
- 3 At any time we have around 2,000 equipment and support projects underway.
- 4 For example, the Gray report notes that “the UK’s allies are by and large complimentary and in some cases envious about what the UK has done to drive reform in this area”. Table 10.3 (page 215) of the Gray report suggests that the UK compares favourably with the US and Australia. DE&S featured in the top quartile of the Human Systems Ltd benchmarking of UK and international organisations managing complex projects.
- 5 The figures are based on an assessment of available and audited information of all equipment projects, including Urgent Operational Requirements (UORs), which have been accepted into service.
- 6 In particular, the UOR process is designed to provide battle-winning equipment at short notice to current operations. We have approved over £5.5Bn of UORs for operations in Afghanistan and Iraq, including nearly £1.2Bn on over 1,000 new vehicles since 2006. The UOR process has been widely praised. For example, the NAO noted in the recent Support to High Intensity Operations Report 2009 that personnel in theatre were in the main complimentary about the quality of the kit they received, and recognised that much more personal equipment is available than before.
- 7 Past reforms include: Smart Procurement (1998), which was renamed Smart Acquisition in 2000 to reflect that this is broader than equipment; the Defence Industrial Strategy (2005) and the Defence Acquisition Change Programme (2006).
- 8 We monitored 41 projects against our Departmental Strategic Objective 3 in 2009, 15 of which predate any acquisition reform. The pre-1999 projects have forecast cost growth of £1.527Bn and account for 46% of time slippage. The projects that were initiated between 1999 and 2004 show a net reduction of £272M in cost overruns and in time slippage of 28%.
- 9 Refers to those major projects which have passed their main investment decision (Main Gate).
- 10 Relates to the time between 01/04/2008 and the average projects In-Service Date.
- 11 The NAO Major Projects Report, published 15 December 2009.
- 12 The Department’s new Strategy for Defence is a business strategy which defines the path we will be taking ahead of the post-election SDR, and details our priorities in the short and longer term. It was published on 28 October 2009, and is available on the MOD website - [www.mod.uk](http://www.mod.uk).
- 13 Capability rests on the productive fusion of new equipment with effective through-life support, and also the right numbers of military operators or users, supported by appropriate training, doctrine, information support and infrastructure.
- 14 To ensure that we minimise overall cost growth and time slippage whilst providing all our significant projects with a taut yet realistic degree of flexibility we will set ourselves the following four targets to be achieved by the end of 2011/12 (past performance relates to our largest (Category A-C) projects): Cost and time will be measured against our most likely (50% confidence) estimates;
  - A hard target of no more than 0.4% average in-year cost variance per project, with a stretch target of no more than 0.2%. [Past Performance: 07/8 0.6%; 08/9 5.6%];
  - A hard target of no more than 0.8 months average in-year slippage, with a stretch target of no more than 0.4 months. [Past Performance: 07/8 4.1months; 08/9 5.9months];
  - A hard target of 85% of projects, with a stretch target of 90% of projects, to report either cost reduction or no more than 2.5% cost growth in-year. [Past Performance: 07/8 81%; 08/9 80%]; and
  - A hard target of 80% of projects, with a stretch target of 90% of projects, to report either time recovery or no more than 3 months slippage in-year. [Past Performance: 07/8 62%; 08/9 60%].
- 15 Project delivery performance over the past four years suggests that the proposed targets are challenging but realistic. In two (05/06 and 06/07) out of the last four years we would have achieved the stretch targets for both time and cost. We would not have met either target over the last two years as a result, largely, of planned decisions (e.g. Queen Elizabeth Carriers and Astute) to delay the introduction of capability. Last year’s performance for time was also significantly impacted by a single project, A400M, which reported an additional 48 month delay. Overall, project time and cost control is improving, as recognised by the NAO in their 2009 Major Projects Report. An affordable equipment programme will also reduce many of the underlying pressures.
- 16 Gray report pp. 19-20
- 17 We have determined the criteria that will ensure proposals to initiate requirements are sufficiently wellgrounded before they can be progressed. Examples from the criteria include overall affordability, alignment to strategy, early considerations of exportability and the need for innovation. The aim is to create a proportionate level of control.
- 18 This includes a formal assessment by external experts to review whether our current quantitative project risk management processes are appropriate to deal with our most complex projects.
- 19 This involves developing equipment and technology in stages, not as a ‘big bang’, and having the adaptability to add or remove particular elements. A key aspect of technology management is separating technology

- development from product development so that not all elements require time to have them ready.
- 20 The Defence Support Review, launched in 2009 by the Chief of Defence Materiel, is examining what further improvements can be made to equipment support and logistics support, including the scope for savings.
  - 21 DE&S featured in the top quartile of the Human Systems Ltd benchmarking assessment of UK and international organisations managing complex projects (see note 4). DE&S performs better than any other organisation in either their approach to or deployment of 9 of the 19 PM categories. DE&S scored a maximum 5 out of 5 for both its approach to and support of Strategic Portfolio Management.
  - 22 The aim is to ensure key DE&S finance posts are filled by experienced staff with a CCAB qualification. All staff with financial responsibility are required to hold, as a minimum, the Finance Skills Foundation licence.
  - 23 The Capability Sponsor organisation under the Deputy Chief of Defence Staff (Capability) leads in planning future capability and acts as the sponsor for the delivery of military capability, including UORs.
  - 24 This will be taken forward through the DE&S 'PACE' programme – Performance, Agility, Confidence, Efficiency. PACE is designed to improve business capabilities in DE&S, notably accountability, skills, processes and performance. The programme began in spring 2008 and is half way through a journey to 2012, by when it will have delivered its objectives.
  - 25 MOD civilian numbers have reduced by one third (46,000) since 1997. Further planned reductions are expected to reduce numbers by another 5.9% to approximately 81,500 by 2011. DE&S in particular currently employs around 22,500 staff. This compares with 29,000 when the organisation was formed in 2007, and the number will reduce further to 20,000 by April 2012.
  - 26 An internal Defence acquisition Terms of Business Agreement has been developed in consultation with MOD Centre, DE&S and Front Line Commands. This documents the framework and mechanisms within which the MOD acquisition system will provide military capability and create, manage and deliver the equipment and support plan.
  - 27 We are examining the scope for the manpower costs required to deliver equipment and support programmes to be allocated to those programmes. This means that those costs can be included in the Equipment and Support Plan. Doing this will provide a more realistic understanding of the full costs of delivery (these costs are currently included in the general cost of running DE&S). We will run a series of pilots to establish how best to implement this.
  - 28 Gray report pp. 42-43.
  - 29 More detail is contained in the Acquisition Operating Framework, [www.aof.mod.uk](http://www.aof.mod.uk).
  - 30 For example, work in this context on strategic airlift has identified that the key future risks to delivery relate to personnel rather than equipment, which has allowed them to be addressed in good time. Another programme, working on Afghanistan operations, has identified, through similar approaches, opportunities to rationalise and enhance the performance and cost effectiveness of tactical communications.
  - 31 We have identified criteria for simplifying the process which includes: minimising interfaces between the different groups; clearly defining their roles and responsibilities; optimising the programme structure (to remove overlap); and stakeholder engagement, removing duplication of activities, and ensuring the appropriate training is delivered. We have already started implementation. We are developing a "Capability Delivery Practitioners' Guide" to ensure clear delineation of roles and responsibilities, refreshing handbooks to reflect new ways of working, and are ensuring that real examples of benefits are being captured and communicated.
  - 32 Defence Industrial Strategy; Command Paper 6697, December 2005.
  - 33 We aim for value for money through competition where possible. However, one consequence of implementing our strategies for specific industrial sectors has been that much of our business has been placed on a non-competitive basis. The percentage of payments made by MOD to the top ten suppliers relating to contracts let by competition has fallen from ~50% to ~40% during the last five years.
  - 34 Haddon-Cave Report, The Nimrod Review, 28 October 2009; paragraph 25.13.
  - 35 Securing the Future, Government's Sustainable Development Strategy, March 2005. Sustainable Development is one of the Cabinet Secretary's top four corporate priorities for the Civil Service.
  - 36 MOD estate comprises 240,000 hectares of land which equates to around 1% of the UK's landmass, has 172 sites of special scientific interest, over 700 scheduled monuments and almost 800 listed buildings.
  - 37 MOD emits around 1% of UK carbon emissions and over 70% of central Government Department estate emissions.
  - 38 Hansard 15 Oct 2009 : Column 34WS - 36WS.





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